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SURVEY of Current Affairs

Government and Administration

The Civil List 87
Contempt of Court Bill 87
Shorter Notes 88
By-election; Launch of Social Democratic Party

External Affairs and Defence

European Community 89
Belize 92
Shorter Note 92
Aid to Zimbabwe

Economic and Scientific Affairs

The Budget 1981-82 94
Public Expenditure Plans 104
National Income and Expenditure 1980 110
Overseas Trade and Balance of Payments in 1980 111
Small Firms 115
Biotechnology 116
Shorter Notes 116
National Mobility Scheme; Cable and Wireless Ltd; Research into Cancer Treatment; Microelectronics in Education

Social and Cultural Affairs

Census of Population 1981 119
Social Security Benefits 120
The Elderly 122
Hospital Treatment for Overseas Visitors 124
The School Curriculum 124

Documentation 126

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GOVERNMENT AND ADMINISTRATION

The Civil List

The sums to be paid from the Civil List in 1981 to finance expenditure incurred by members of the Royal Family in carrying out their official duties have been announced.

The amounts payable from central funds to the Royal Family in the calendar years 1980 and 1981 were set out by the Treasury on 10 March (*Hansard*, Vol 1,000, No 64, written answers, cols 304-5). The funds are made available under the Civil List Acts to provide for the expenses incurred by members of the Royal Family in the course of their official duties. The new figures take account of increases in prices and in staff salaries. For 1981 the Queen's Civil List was estimated to be £3,260,200 (compared with £2,900,500 in 1980). The amounts for other members of the Royal Family for 1981 are as follows: Queen Elizabeth, the Queen Mother, £286,000; the Duke of Edinburgh, £160,000; Princess Anne, £100,000; Prince Andrew, £20,000; Princess Margaret, £98,000; Princess Alice, Duchess of Gloucester, £40,000; the Duke of Gloucester, £78,000; the Duke of Kent, £106,000; and Princess Alexandra, £101,000. (Princess Alice, Countess of Athlone, for whom provision had also been made, died on 3 January 1981.) The total amount, £4,249,273, compares with the 1980 total of £3,791,350.

The amounts shown combine sums directly payable from the Consolidated Fund with supplements provided by the Royal Trustees, which are subject to House of Commons approval. No special provision is made for the Queen's eldest son, Prince Charles, who is entitled to the net revenues of the Duchy of Cornwall, though at present he surrenders half to the nation. The next eldest son, Prince Andrew, reached the age of 18 in February 1978 and became eligible for a sum of £20,000 in a full year; however, he will receive only £10,500 of his allocation for 1981, the balance to be accumulated by the Royal Trustees. The sums payable in respect of the Duke of Gloucester, the Duke of Kent, Princess Alexandra and Princess Alice, Countess of Athlone (£285,073), are matched by payments made into the Consolidated Fund by the Queen.

Contempt of Court Bill

The Contempt of Court Bill has received its second reading in the House of Commons.

The main purposes of the Bill, which was given a second reading on 2 March (*Hansard*, Vol 1,000, No 58, cols 28-104), are: to implement, with minor modifications, the main recommendations of the report of the Phillimore Committee on Contempt of Court[1]; to ensure that the law on this subject in the United Kingdom conforms to the requirements of the European Convention on Human Rights, following the judgment of the European Court of Human Rights in 1979 in the *Sunday Times* case (when that court found that the House of Lords, in upholding an injunction to prevent the *Sunday Times* from publishing an article on the thalidomide tragedy, was in violation of the Convention on Human Rights); to prohibit the publication of jury deliberations in such a way as to enable the case of jurors in question to be identified; and to clarify the law on the extent to which inferior courts and tribunals are protected by the law of contempt. The Bill extends to the whole of the United Kingdom.

The most important of the Phillimore recommendations to which the Bill would give effect are those relating to the rule of law whereby conduct may be treated as contempt of court if it creates a danger that the course of justice would be prejudiced. The Bill would limit the scope of this rule by providing that it would apply only to publications (defined as including any speech, writing, broadcast or other communication which is addressed to the public at large), and then only if the publication creates a risk that the course of justice in the proceedings in question would be seriously impeded or prejudiced; and then only if the proceedings are actually current. Criminal proceedings would be covered from beginning to end, the beginning for its purpose being the moment when the accused is arrested or a warrant for his or her arrest is issued rather than, as Phillimore recommended, when the accused is charged. Civil proceedings, on the other hand,

[1] *Report of the Committee on Contempt of Court*. Cmnd 5794. HMSO, £1. ISBN 0 10 157940 3.

would not be treated as current for the purpose of this rule until the case was set down for trial or a date for hearing or trial had been fixed.

The Bill would provide two new defences. First, a person would not be guilty of contempt under the rule referred to above if he or she had simply published a fair and accurate report of legal proceedings held in public, published contemporaneously and in good faith, unless the court expressly prohibited publication. Secondly, a publication made in the discussion in good faith of public affairs would not be treated as contempt of court if the creation of a risk of prejudice to particular proceedings were merely incidental to the discussion.

The Bill would make a number of other amendments to law and procedure including the following. The unofficial use of tape-recorders in court, except with leave of the court, would be prohibited, as would be publication of recordings of court proceedings. Where a court lawfully ordered information (for example, the name of a witness) to be withheld it would also have power to prohibit publication of the information. Magistrates' courts would have power to deal summarily with disturbances in court by imposing a fine of up to £500 or imprisonment for up to one month. Where powers of imprisonment for contempt have hitherto been unrestricted a maximum of two years' imprisonment would be imposed by the Bill.

Shorter Notes

BY-ELECTION

A parliamentary by-election in the Fermanagh and South Tyrone constituency of Northern Ireland was held on 9 April. The seat was won by Mr Robert Sands, a member of the Provisional IRA convicted in 1977 of firearms and ammunition charges and sentenced to concurrent terms of 14 and 10 years imprisonment, who has been on hunger strike at Maze Prison in Belfast since 1 March (see p 64). Mr Sands, majority was 1,446 votes.

The results were as follows:

R. Sands (Anti-H Block Armagh Political Prisoner)	30,492
H. West (Official Unionist)	29,046

Some 86·8 per cent of the electorate voted. The seat had become vacant following the death in March of the independent MP, Mr Frank Maguire.

In a statement issued on 13 April, the Leader of the House of Commons, Mr Francis Pym, said that the consultations which he had held with the main parties at Westminster to discuss the result of the by-election had shown that the present general view was that no action should be taken. [The Government has repeatedly stated that it will not grant demands for political status for prisoners convicted of criminal acts by due process of law (see p 311, 1979, and pp 4 and 64).]

LAUNCH OF SOCIAL DEMOCRATIC PARTY

A new political party – the Social Democratic Party (SDP) – was launched on 26 March. The party is represented in the House of Commons by 14 MPs – 13 former Labour and one former Conservative – who resigned from their parties to join the Council for Social Democracy, set up in January to 'rally all those who are committed to the values, principles and policies of social democracy' (see pp 62-4). Over 20 former Labour and crossbench peers in the House of Lords have joined the party. The Council is now merged into the new party. Its four founder members – Mr Roy Jenkins, Dr David Owen, MP, Mr William Rodgers, MP, and Mrs Shirley Williams – form the party's collective leadership.

In a twelve-point document issued on the day of the launch, the SDP declared its support for, among other things, the electoral system of proportional representation, the mixed economy, the creation of new jobs and the reduction of unemployment, greater decentralisation of government, greater equality for women, full co-operation in the European Community and in the North Atlantic Treaty Organisation and multilateral disarmament.

EXTERNAL AFFAIRS AND DEFENCE

European Community

Britain's full commitment to the European Community was emphasised by the Prime Minister, Mrs Margaret Thatcher, in a speech to the Commonwealth and Diplomatic Writers Association in London on 8 April. The European Council met in Maastricht in March and among the matters discussed were the economic and social problems facing the Community, fisheries, Poland and other international issues. Other recent developments include agreement on farm prices for 1981-82, further discussions on a common fisheries policy, improvements in Britain's trade performance with other member states, and a commitment to issue national passports in a common format.

PRIME MINISTER'S SPEECH

Emphasising, in the light of the situation in Poland (see p 90), the need for Community members to co-ordinate their foreign policies in deeds and in words, Mrs Thatcher pointed out that such co-operation was built on the foundation provided by the common policies of the Community. She continued: 'If the Community is to be a viable and worthwhile organisation, those policies must be applied in a balanced way and its members must be prepared to take a balanced view of each others' problems.' Commenting that there had recently been 'too much questioning of each others' motives and good faith', Mrs Thatcher went on: 'The fact is that people in other member countries are no more entitled to query our commitment to the Community than we are to query theirs. The same rules and principles apply to them as apply to us. Our commitment is just as firm as theirs. But it is no more blind or uncritical than theirs. We are no less determined than they to ensure that when Community policies are negotiated our interests, like theirs, are properly served.'

The Prime Minister pointed out that a joint effort was needed to solve fundamental problems such as the structure of the Community budget and the future development of agricultural policy. It was clear, for instance, that Britain and the Federal Republic of Germany were the only net contributors to the budget in 1980, and that the same pattern was likely in 1981. This could not be 'a healthy basis for long-term development'. The British Government wanted to tackle these problems in a way which would 'result in a strengthened Community with a budget system fair to all the partners'. It wanted a Community in which every member state accepted its responsibilities towards the others secure in the knowledge that its own interests would be respected.

EUROPEAN COUNCIL

Although no formal communiqué was issued after the Council meeting, the participants agreed a number of statements on international matters. Some of the points covered by these were also mentioned by the Prime Minister in a statement to the House of Commons on 25 March (*Hansard*, Vol 1, No 75, cols 927-34).

Prime Minister's Statement

All the participants, Mrs Thatcher told the House, had 'emphasised the need to continue the fight against inflation through the pursuit of sound monetary policies' and had agreed 'on the need to encourage productive investment, particularly in the sectors of high technology and innovative enterprise'. All shared deep concern at 'the high and rising rate of unemployment, particularly youth unemployment, in member countries' and were determined to make the best possible use of existing funds and financial mechanisms in providing advanced technological training and education for youth. Member states had expressed the clear and unanimous view that 'short-term demand stimuli would be ineffective'.

On fisheries Mrs Thatcher said that Britain was seeking early agreement on a settlement that would secure the vital interests of the British fishing industry. Agreement had been close in December 1980 and, if each member state had a genuine willingness to settle, it would be possible to find solutions. It had therefore been agreed that the fisheries ministers should meet for further discussions (see below). On the outstanding Community agreements with Canada and the Faroes the Prime Minister said that attempts had been made to deal with these in isolation. However, the measures offered as a *quid pro quo* to improve fish marketing arrangements did not provide sufficient protection to the British industry. Britain had insisted, and it had been agreed, that these external fisheries questions should be dealt with in the context of an overall fisheries settlement.

With regard to Poland, Mrs Thatcher said that the Community's view was that it was for the Polish people to resolve their problems and that any other attitude than this could have 'the gravest consequences for international relations in Europe and world wide'. Mrs Thatcher pointed out that the participants had expressed readiness to contribute to the recovery of the Polish economy thereby complementing the efforts of the Polish people.

Turning to other international issues, the Prime Minister said that the Council had taken note of the progress registered so far by the Netherlands Presidency in following up the 1980 Venice declaration on the Middle East (see pp 202-3, 1980). It had also endorsed a statement made in March by the President of the United Nations Security Council in support of the United Nations force in the Lebanon, in which some Community member states participated. Support was pledged 'for any initiative likely to contribute to the restoration of Afghanistan as an independent, non-aligned and neutral state'. Finally, the people of Spain had been congratulated for defeating the recent challenge to democracy in their country (see p 66); member states were looking forward to welcoming Spain in due course as a member of the Community.

Community Statement on Poland

The Council noted that Poland had shown that it was capable of facing its internal problems 'in a spirit of reason and responsibility'. It was in the interests of the Polish people (and of stability in Europe) that Poland 'should continue to do so in a peaceful manner and without outside interference'. It was the obligation of all states signatory to the Helsinki Final Act to base their relations with Poland on the strict application of the Charter of the United Nations and the principles of the Final Act. Any other attitude 'would have very serious consequences for the future of international relations in Europe and throughout the world'.[1]

Noting that member states and the Community had already responded to Polish requests for economic support, the Council said that they were disposed 'within the limits of their means and in collaboration with others' to continue contributing to the recovery of the Polish economy. It also requested the European Commission and the Council of Ministers to examine Polish requests for extra food supplies and to decide on Community participation in discussions on this as a matter of urgency.

[1]Following the Polish Government's agreement to the establishment of free trade unions in August 1980 (see footnote p 352, 1980), its continuing differences with the 'Solidarity' union, these sometimes involving strikes or the threat of strikes, have caused much adverse comment by political leaders and the press in some Warsaw Pact countries. There has also been evidence of considerable Warsaw Pact military activity in and around Poland. Commenting on this in her speech of 8 April, Mrs Thatcher said that the events of 'odnowa' – internal renewal – in Poland were a purely Polish concern and that suggestions that the West was interfering were 'absurd and dangerous'. An external intervention in Poland, she continued, would be a disaster for Poland, for Europe and for East-West relations, and she hoped that the Soviet leaders realised that it would be a disaster for the Soviet Union too. The world looked to the Soviet Union to respect the will of the Polish people and their right to express it.

AGRICULTURE

Following a meeting of Community agriculture ministers in Brussels from 30 March to 1 April, details concerning the farm price settlement for 1981-82 were given to the House of Commons by the Minister of Agriculture, Fisheries and Food, Mr Peter Walker, on 3 April (*Hansard*, Vol 2, No 81, cols 609-19). Mr Walker said that during the negotiations Britain had had three main aims – to contain the cost of the Common Agricultural Policy (CAP), to take proper account of consumers' interests, and to obtain improvements to benefit the stability and the future of British agriculture.

Costs

The Council of Agricultural Ministers agreed not to exceed the 1981 budget appropriation for milk (10 per cent below that of the previous year) and confirmed that measures would be taken, if necessary, to limit surplus production and thereby contain budgetary costs. In addition, co-responsibility arrangements for cereals will be introduced in 1982-83 providing an estimated saving of £39 million. Another £38 million will be saved through more flexible intervention arrangements for beef. Ministers also agreed to limit expenditure on processed fruit and vegetables, thereby saving some £40 million.

The overall budgetary effects for the Community of the total package will be £596 million in a full year, this increase being equal to about 8·5 per cent of the current CAP budget. Mr Walker said that the Council had taken note of a declaration by the European Commission that there would not be any need for supplementary budget for agriculture in 1981 and that for 1982 the decisions on the package were consistent with ensuring that the increase in agricultural spending would remain close to, or below, the rate of increase in the Community's own resources.[1] Britain, supported by the Federal Republic of Germany and the Netherlands, had recorded very strongly its view that the rate of increase of agricultural guarantee expenditure should, from 1982 onwards, be markedly lower than the rate of growth of own resources.

The Consumer

Mr Walker said that he had resisted proposals to reduce the British subsidy on butter and that the beef and lamb premium schemes would continue. These three schemes would bring subsidies of £300 million to the British consumer, benefits that were not available in other member states. The overall effect of the price settlement would be less than 0·25 per cent on the retail price index and about 1 per cent on food prices as a whole over a year. Final agreement had also been secured on continuing the special arrangements

[1]The Community's income consisting of customs duties, levies on imported agricultural products, and the yield of a notional value added tax of up to 1 per cent on an agreed range of goods and services.

for the import of New Zealand butter (94,000 tonnes for 1981 and 92,000 tonnes for 1982) and to the passing of a regulation providing refunds to the whisky industry.

Farm Incomes

Noting that farm incomes throughout the Community had fallen substantially over the last two years, and that in Britain they had declined in 1980 by 24 per cent in real terms, the Minister said that the package would provide additional receipts of £325 million to British agriculture in a full year. Attempts to revalue the green pound had been resisted and additional aid for Northern Ireland (similar to that offered to the Irish Republic) of between £8 and £9 million had been obtained. In addition, agreement had been reached that there should be no 'clawback' on exports of British lamb to third countries and that arrangements should be considered to modify the current clawback provisions for intra-Community trade. [Under present arrangements, if the market price for lamb in Britain falls below a certain level, known as the guide price, a payment is made to bring the market price up to the guide price in order to compensate sheep producers. In the case of exports to other Community member states this payment is taken back so as to prevent unfair competition in other Community markets.]

Mr Walker concluded that the price settlement would enable British agriculture and the food industry to continue making an important contribution to the British economy.

FISHERIES

Following the European Council discussions on fish, the Council of Fisheries Ministers met on 27 March. Reporting to the House of Commons on 30 March (*Hansard,* Vol 2, No 78, cols 24-31), Mr Peter Walker said that it had quickly become apparent that 'one delegation [that of France] was not able to negotiate on the crucial question of access and that therefore there was no possibility of agreement on a comprehensive, revised common fisheries policy'. However, all the ministers had committed their governments to make every endeavour to reach overall agreement this spring.

Mr Walker emphasised that it was 'vital to retain the strength of the British fishing industry'. Recalling that the Government had given £37 million of aid to the industry in 1980-81, Mr Walker announced that a further £25 million was being made available, since markets were weak and the fishing fleet was being hit hard by increasing costs and continuing uncertainty.

Answering questions, the Minister said that in May 1980 heads of Government had hoped that a common fisheries policy would be settled by the end of 1980 (see p 184, 1980, and pp 50-2). Britain shared the disappointment that agreement had not been reached in December because of the acts of others. It was in the interests of all fishermen to have a common fisheries policy, for the conservation policies that could only operate on a European basis were 'essential to the future build-up of stocks'.

TRADE

Britain earned a visible surplus of £700 million in its 1980 trade with the other Community member states, according to figures given by the Minister for Trade, Mr Cecil Parkinson, in a speech delivered in London on 31 March. This is the first surplus in this area since 1970.

Mr Parkinson said that the many trade successes for Britain in the Community confirmed the Government in its wholehearted commitment to membership. The Community represented a vital home market for British industry; if the industrial free trade with member countries of the European Free Trade Area was taken into account, the whole of Western Europe could be considered 'as a single virtually tariff-free home market worth about £1,000,000 million a year'.

Commenting upon the successful development of external trade policy, Mr Parkinson recalled that the Community had negotiated as one during the Tokyo Round of tariff reductions (see pp 156-9, 1979) and had secured a satisfactory outcome, including longstanding objectives *vis-à-vis* the United States (for example, with respect to Britain's chemical and whisky industries). It was very unlikely that Britain could have secured such a result by negotiating on its own. The Community, and Britain in particular, were in the forefront of ensuring that the intentions of the parties to the agreements were carried through in order to secure the benefits from better order in international trade.

Mr Parkinson stressed the importance of international trade in services for Britain's invisible exports, and said that the Government was looking for 'real progress this year in freeing the Community market for insurance services' and was urging 'greater liberalisation in the regime for air transport services'.

COMMON FORMAT PASSPORTS

Details concerning the issue of common format passports were agreed by the Council of Foreign Ministers in March. This followed a decision taken by the European Council in 1974 that there should be a common format for the national passports of member states to symbolise their partnership. Their issue will remain a national prerogative and their introduction will involve no change in the nationality or other entitlements of holders.

In reply to a written question (*Hansard,* 8.4.81, Vol 2, No 84, cols 283-5), the Lord Privy Seal, Sir Ian Gilmour, said that a formula had been agreed under which member states would each endeavour to issue passports in the common format by 1 January 1985. In Britain's case, however, this was dependent on overcoming the problems involved in adopting the International Civil Aviation Organisation's recommendation that passports should be in a simplified, standardised format capable of being read by machine. If widely adopted by other countries, this would enable travellers to pass more quickly through immigration control, and would offer greater security since it would be difficult to counterfeit or tamper with passports.

Although some details have not yet been worked out, the cover of the new British passport will be burgundy-coloured and will have, in addition to its present characteristics, the words 'European Community' printed on it.

Belize

Britain and Guatemala have agreed on a framework for resolving Guatemala's 100-year-old territorial claim on Belize. Negotiations for a final agreement, the conclusion of which will enable Belize to proceed to an early and secure independence, will begin on 20 May. A constitutional conference to prepare Belize for independence met in London during April.

The 'Heads of Agreement' was signed on 11 March following ministerial talks in London which were also attended by the Belize Government. It represented, the Secretary of State for Foreign and Commonwealth Affairs, Lord Carrington, told the House of Lords on 17 March (*Hansard* (*HL*), Vol 418, No 53, cols 656-61), a 'commitment on all sides to negotiate in good faith the legal instruments which [would] provide for a full, honourable and permanent settlement'.

Heads of Agreement

The Heads of Agreement provides for full Guatemalan recognition of the sovereignty and territorial integrity of an independent Belize within its existing frontiers subject only to the completion of the final treaty or treaties. This, among other things, will accord Guatemala such territorial seas as may be necessary to ensure permanent and unimpeded access to the high seas, together with rights over the seabed thereunder; the use and enjoyment of the Ranguana and Sapodilla cays,[1] and rights in those areas of the sea adjacent to the cays, as may be agreed; and free port facilities in Belize City and Punta Gorda. Belize will be accorded matching free port facilities by Guatemala. Other provisions will provide for Guatemalan freedom of transit on roads, which are to be improved, linking its frontier to Belize City and Punta Gorda; for Belize to facilitate the construction of oil pipelines between Guatemala and Belize City, Dangriga and Punta Gorda; and for the two countries to conclude agreements concerning the joint exploration and exploitation of offshore minerals and hydrocarbons, pollution control, navigation, and fishing, and development projects of mutual benefit. They will also sign a treaty of co-operation on security matters of mutual concern, and neither will permit its territory to be used to support subversion against the other.

The Heads of Agreement also covers the re-establishment of full and normal relations between Britain and Guatemala and for both countries to sponsor the membership of Belize in the United Nations, the Organisation of American States, Central American organisations, and other international bodies.

[1]Two groups of very small islands on the Belizean barrier reef.

Constitutional Conference

The constitutional conference held in London on 6–14 April, was attended by a Belize delegation of five ministers led by the Deputy Premier, Mr C. L. B. Rogers. Britain's delegation was led by Mr Nicholas Ridley, Minister of State at the Foreign and Commonwealth Office. Although invited, the Opposition United Democratic Party chose not to attend. The Belize Premier, Mr George Price, felt that he could not leave Belize in view of the state of emergency declared by the Governor, Mr Hennessy, on 2 April after consultation with him and the Belize Security Committee. This action, designed to ensure the maintenance of law and order, the protection of life and property, and of essential supplies and services, was taken in the light of continued disturbances arising from demonstrations against the Heads of Agreement and against the Belize Government's proposals for the new constitution.

Although no date for independence was set, a constitution was agreed which will preserve the democratic system and institutions which have existed in Belize since the introduction of internal self-government in 1964. It will include a comprehensive section on human rights and freedoms.

Background

Belize is an internally self-governing dependency which lies on the eastern or Caribbean coast of Central America, bounded on the north and part of the west by Mexico, and on the south and the remainder of the west by Guatemala. Full independence has been delayed by Guatemala's territorial claim. Several negotiations took place in the 1970s in an effort to solve the problem, and a new round of talks began in May 1980.

From 1975 successive United Nations General Assembly resolutions were passed, with increasing majorities, recognising Belize's right to self-determination, independence and territorial integrity and calling for negotiations between Britain and Guatemala. In November 1980 the General Assembly approved by 139 votes to 0 with 7 abstentions a resolution calling upon Britain to convene a constitutional conference to prepare for the independence of Belize and reaffirming the right of the people of Belize to self-determination, independence and territorial integrity (see pp 6–7). In December 1980 Britain announced that a constitutional conference would be convened in the near future and that it wanted to secure a negotiated settlement of the dispute with Guatemala.

Shorter Note

AID TO ZIMBABWE

Britain is to make available a further £25 million in aid to Zimbabwe over the next three years. This was announced by the Lord President of the Council, Lord Soames, the last Governor of

Rhodesia, at the Zimbabwe Aid Donors Conference in Salisbury on 24 March. The pledge consists of grants of £10 million for land resettlement, £10 million for regional projects, with particular emphasis on railway communications, and £5 million for Zimbabwean students at present in Britain.

Lord Soames reminded his audience that Britain's earlier aid commitments to Zimbabwe for 1980-83 totalled £96 million, in addition to £22 million of debt written off in June 1980 (see p 358, 1980). Together with the sum announced at the Conference, British aid to Zimbabwe now amounted to over £140 million. 'We see this', said Lord Soames, 'as a demonstration of our attachment to Zimbabwe and of our profound interest in its future'. He suggested that the aim should be to commit the new aid by the end of March 1983, when the Zimbabwe and British Governments could consider the situation again.

After the Conference the Zimbabwe Government stated that total international aid pledged to Zimbabwe before and during the Conference now stood at about £890 million of which more than half had been pledged at the Conference itself by a large number of countries and agencies.

ECONOMIC AND SCIENTIFIC AFFAIRS

The Budget 1981-82

A reduction in minimum lending rate from 14 to 12 per cent, measures to help industry, increases in certain indirect taxes and duties, and a call on new sources of revenue were the major aspects of the Budget, which the Chancellor of the Exchequer, Sir Geoffrey Howe, presented on 10 March. The Government is reaffirming its medium-term financial strategy which, as announced in the 1980 Budget, entails a reduction in the annual rate of monetary growth to 4-8 per cent by 1983-84.

INTRODUCTION

Progress in the fight against inflation, rising living standards, improved industrial relations and a record surplus on the current account of the balance of payments had all been achieved in Britain during the past year, said the Chancellor in introducing his Budget to the House of Commons (*Hansard*, Vol 1,000, No 64, cols 757-82). However, there were 'sharp contrasts' and Sir Geoffrey pointed out that in 1980 total output, especially that of manufacturing industry, had fallen markedly. Interest rates had remained high, with many parts of industry being 'extremely hard pressed', and, although the latest figures suggested that the rise in unemployment might be slowing down, about 1 million more people were out of work than a year previously. 'For individuals, families, and sometimes for entire communities, this can mean real hardship. The Government shares the nation's deep concern.'

Britain was not the only country with these problems, the Chancellor went on. Output had fallen sharply and unemployment had risen in other member countries of the Organisation for Economic Co-operation and Development (OECD) while inflation remained at a high level. Output in the European Community as a whole in 1981 was not expected to show any improvement over 1980. 'The enormous rise in oil prices in the last two years' was a major cause of the world recession. The huge payments surpluses accumulated by the oil-exporting countries meant that other countries had less to spend. At the same time these governments 'had to act firmly to counter the inflationary spiral set in motion by higher oil prices'. These were the main reasons why the OECD had estimated that the national product of the industrial countries in 1981 would be at least 6 per cent lower than it would have been without the latest oil price increases. Sir Geoffrey explained that Britain was a trading nation and so the fact that it had its own oil could not protect if from the effects of the slow-down in many of its export markets.

Industry had had 'to adapt to a second huge increase in the price of energy'. The world price of oil was now three times its level of three years ago. North Sea operations had thus contributed to the sharp rise in the sterling exchange rate since 1977.[1] Other factors, including changes in the performance of overseas economies, had also influenced the exchange rate. Although the strength of sterling had conferred some benefit on British industry by making raw materials cheaper, it had also led to real difficulty for those businesses which competed internationally.

The level of pay settlements in the private sector had fallen significantly and pay bargainers had 'begun to face up to the harsh truth that excessive pay is a major cause of unemployment'. Most settlements in manufacturing since November 1980 had been below 10 per cent, in sharp contrast to what had happened in previous years.

The nationalised industries, many of which were monopolies, were 'not subject to the same market disciplines as the private sector', Sir Geoffrey went on to explain. They had often been slow to adapt and, even when they did so, the financial and social costs could be very heavy. 'It is the need to make nationalised industries more responsive to market disciplines which lies behind the Government's vigorous programme to increase competition in, for example, transport and telecommunications, and wherever possible to return parts of the state-owned sector to private enterprise.' Because of the failure of the public sector to learn these lessons quickly, its overall cost had continued to grow relative to that of the rest of the economy. Total spending programmes in 1980-81 were now expected to cost nearly £94,000 million compared with the forecast of about £91,500 million made in the 1980 Budget. Also, debt interest had been £1,000 million more than expected. The increase in the total would have been even greater had the Prime Minister not succeeded in negotiating refunds from the European Community of some £600 million (see pp 314-15, 1980).

[1]The average rate against the dollar had risen from $1·746 in 1977 to $2·328 in 1980.

BUDGET STRATEGY

Explaining to the House the central objectives of his Budget, the Chancellor said that he had been urged from some quarters to abandon the battle against inflation as top priority and look instead for ways of expanding the economy. He said that, if this would lead to a substantial recovery for British industry, and so to the creation of more long-term jobs, he would certainly have been ready to consider a change of course. However, 'to change course now would be fatal to the whole counter-inflation strategy'. Britain's problems in recent years had not been a lack of final demand: since 1977 total spending had risen in money terms by no less than 50 per cent but 'most of the impact of that increase has been dissipated in higher prices'. A large proportion of the increase in the volume of spending had been on imports so that there had been little effect on output in Britain. Merely boosting demand would do nothing to remedy this problem. Sir Geoffrey felt that in the past governments had 'too often deprived themselves and the British people of the success that they deserved because they abandoned the policies when the going got rough'. He was therefore determined to continue the firm action necessary to maintain success in the battle against inflation. This year it was essential to respond to two imbalances in the economy: that between consumers and industry and that between the public and private sectors. 'Moving towards a better balance must be the central purpose of this Budget.'

MEDIUM-TERM FINANCIAL STRATEGY

The Chancellor told the House that it was 'widely recognised that sustained monetary restraint is necessary if inflation is to be kept permanently under control'. Although there was not a rigid relationship between money and prices and there were non-monetary influences on the rate of inflation, particularly in the short run, monetary policy remained 'of fundamental importance'.

Sir Geoffrey recalled that in 1980 the Government had reaffirmed its commitment to the conquest of accelerating inflation when it had published its medium-term financial strategy (see p 113, 1980). He was now reaffirming it again 'by taking the measures necessary to strengthen and carry forward that strategy'. Because of the tight financial conditions of the previous 18 months, including the effects of the strong pound, Britain was 'well ahead in the battle against inflation', and this had been achieved while reducing controls. However, for a number of reasons related to the special circumstances of the past year, the growth of sterling M3 (money in circulation and the sterling bank deposits of British residents) had been well outside the target range for the first year of 7-11 per cent. The Chancellor recalled that in November he had said that he expected the rate of growth to slow down in 1981 (see p 363, 1980); recent figures were fully consistent with this expectation.[1]

[1]Sterling M3 rose by 0·7 per cent in January and 0·9 per cent in February.

The first reason for rapid monetary growth in 1980-81 was the abolition of the supplementary special deposits scheme (the 'corset') (see p 19, 1974). This was 'long overdue', said Sir Geoffrey, adding that all the corset had achieved was to make the published figures of the money stock artificially low. Since the removal of the corset last summer (see p 131, 1980) the distortions had been reversed and the figures therefore artificially high. By now, however, the distortions had largely worked their way out of the system so that sterling M3 would become a better measure.

Secondly, in 1980-81 the growth of sterling M3 was increased by the 'special nature of the recession'. Public borrowing, the Chancellor explained, increased in a recession but this was usually offset by lower borrowing by the private sector. Public borrowing had been 'exceptionally high' over the past 12 months but, on this occasion, bank lending did not decline as quickly as might have been expected. Sir Geoffrey said that, because of the exceptional imbalance between incomes in the business and the personal sectors, both sectors had, for different reasons, borrowed heavily. 'Faced with an unexpectedly severe recession and the consequences of previous pay increases, businesses borrowed to tide them over while they reduced costs.' Many individuals, on the other hand, had experienced a rise in living standards unusual in a recession and they too had been willing and able to borrow. The combined effect of this borrowing had been an important influence in the expansion of sterling M3.

There had also been a high level of private investment in financial assets, the Chancellor continued, which could be seen as an attempt by the private sector to restore its holdings of these assets, the purchasing power of which had been sharply eroded by inflation. This investment had included an increase in holdings of interest-bearing money but, to the extent that this merely involved a return to a more normal level of holdings of financial assets, it did not need to be inflationary.

Other indicators suggested that the underlying financial conditions had been tight, as the Government had intended. The consultative document *Monetary Control*, published in March 1980 (see pp 131-2, 1980), had 'stressed the need to watch a range of measures of monetary conditions'. Over the previous 18 months the narrower measures of money had 'not grown at all rapidly'.

The Chancellor felt that 'financial behaviour should now revert to a more normal pattern'. Private sector borrowing from the banks had been moderating while 'the exceptionally rapid build-up of personal sector liquidity should come to an end as the growth of prices and incomes continues to slow down'.

Sir Geoffrey went on to express the view that the medium-term strategy should be stated in terms of a wide measure of money because the strategy had close links with public spending and borrowing. He was therefore maintaining continuity by keeping sterling M3 as the yardstick for medium-term policy; the aim remained a reduction in annual monetary growth to 4-8 per cent by

1983-84 (see Table 1). Over the 14 months from February 1981 to April 1982 the target range would be an annual rate of growth of 6-10 per cent. The Chancellor felt that the special factors at work in 1980-81 were unlikely to be repeated and, in any event, they should have no adverse implications for future inflation.

Table 1

Planned Ranges for Growth of the Money Stock (Sterling M3)

	1981-82	1982-83	1983-84
Percentage change during year	6-10	5-9	4-8

Sir Geoffrey explained that the short-term response of sterling M3 to changes in interest rates was 'particularly uncertain' and the full effect could be spread over many months. The narrower measures of the money stock, which the Government also monitored, included fewer interest-bearing types of money and were more sensitive to changes in interest rates. 'But because they are so sensitive, they can overstate the effect of interest rate changes on underlying monetary conditions. Moreover, their relationship to other aspects of policy is less clear.' The Chancellor was therefore taking steps to improve the information available about the narrower measures; publication of figures for the monetary base would begin later in March.[1] Arrangements to produce a new statistical series for the retail deposits of the banking system, M2, were also well advanced and would be published later in 1981. The Government would continue to monitor M1 (money in circulation and the sterling sight deposits of the British private sector), taking into account its normal tendency to grow quickly as nominal rates of interest decline because of inflation. For this reason M1 might grow rather faster for a time than it did in 1980-81.

PUBLIC SECTOR BORROWING

The size of public borrowing, Sir Geoffrey pointed out, was 'a critically important constraint'. It was the experience of governments around the world that, if they tried to borrow too much, interest rates or inflation or both began to soar. If Britain were to stay on course for a lower rate of inflation and lower interest rates, it had to borrow less. Public borrowing as a proportion of national income had to be brought down, which was why the medium-term financial strategy envisaged a downward path for both borrowing and the rate of growth of the money supply.

Against this background the Chancellor expressed his anxiety at the way in which borrowing had actually developed. The public sector borrowing requirement (PSBR) for 1980-81 was now forecast at £13,500 million (6 per cent of gross domestic product (GDP)), compared with a forecast in the 1980 Budget of £8,500 million. The great bulk of the excess of £5,000 million was accounted for by higher expenditure. However, there had also been a net shortfall of tax revenue of about £1,000 million, with receipts from indirect taxes and North Sea oil below expectations and only partly offset by higher receipts from the other Inland Revenue taxes.

For 1981-82 the Government's published strategy suggested a PSBR of some 3 per cent of GDP. In today's prices this would amount to about £7,500 million. In 1981-82 output was expected to be lower and unemployment higher than envisaged a year ago. The effect of the recession on the PSBR was likely to be even greater in 1981-82 than in 1980-81, meaning that a PSBR of £7,500 million for 1981-82 would be 'unduly restrictive'. Sir Geoffrey told the House that planning for the Budget had started from the basis of a forecast PSBR in 1981-82 of no less than £14,000 million but he was in no doubt that for a government 'to begin the year with the intention of borrowing as much as £14,000 million would be irresponsible in itself and unacceptable to the House'. He had decided, 'taking everything into account', that it would be right to provide for a PSBR in 1981-82 of some £10,500 million, a little more than 4 per cent of GDP. To bring the PSBR down from £14,000 million to £10,500 million 'some harsh decisions are inescapable'. The figure of £14,000 million incorporated the spending plans for 1981-82 that had already been announced but it was otherwise based on unchanged tax rates and allowances. It allowed for the increases in national insurance contributions announced in his economic statement of November 1980 (see p 363, 1980). That left a net sum of some £3,500 million to be secured in this Budget, of which £1,000 million would come from the new oil tax, also foreshadowed in the economic statement.

Sir Geoffrey felt that the tax changes would enable the Government to achieve its monetary objectives 'without having to face intolerably high interest rates'. However, the Government was 'determined to maintain the monetary and fiscal framework necessary for the reduction and defeat of inflation – even at the cost of departing, for the time being, from our commitment to lower personal taxes'. The tax increases to be announced were both 'a measure of that determination' and a reflection of 'the bill that we as a nation must meet if we are to pay for the high level of public spending that we have chosen to support'.

METHOD OF BORROWING AND MONETARY CONTROL

Sir Geoffrey pointed out that it was necessary not only to reduce government borrowing but also to finance it in a non-inflationary way. 'By drawing more effectively on possible sources of savings, it should be possible to control the growth of sterling M3 more effectively.'

National Savings

One method which could help to reduce pressure on the capital markets was 'imaginative use of

[1]The March 1981 issue of the *Bank of England Quarterly Bulletin* contains an article on the monetary base with annual data back to 1919.

national savings'. As a result of the initiative launched in the autumn of 1980, the Government had already achieved its target of £2,000 million of national savings for 1980-81. For 1981-82 the target was still more ambitious, £3,000 million (see p 365, 1980), for which new measures were needed. The Government therefore proposed two important changes to the second index-linked issue of National Savings Certificates from the beginning of April. The age of eligibility for holders would be reduced from 60 to 50 and a minimum bonus of 4 per cent would be provided for all holders, both new and existing.

Following the announcement in October 1980 by the Secretary of State for Energy of plans for a bond which would allow the public to share in the benefits of Britain's North Sea oil resources (see pp 328-9, 1980), the Government intended to issue such a bond later in 1981. It would be aimed at small savers and would be a non-marketable certificate administered by the Department for National Savings. Its capital value would be linked to the British National Oil Corporation's production of North Sea oil.

Marketable Securities

An important extension of the structure of government borrowing was proposed by the introduction of an indexed government security.[1] It would be sold only to pension funds and to life insurance companies and friendly societies in respect of their pension business in Britain in order to reduce the risk of attracting unwanted inflows of foreign funds. Sir Geoffrey said that the innovation demonstrated 'the confidence we have in our strategy for bringing inflation down'. The Government was also considering the introduction later in the year of new short-term government securities.[2]

Monetary Control

These initiatives in the financing of government borrowing would be accompanied by other improvements in monetary control, Sir Geoffrey said. Following extensive consultations based on the consultative document *Monetary Control*, he had outlined in November 1980 (see p 364, 1980) some desirable changes that would be consistent with a gradual evolution to monetary base control.[3] These would come into effect during the 1981-82 financial year.

The first step in phasing out the reserve asset ratio which, the Chancellor felt, had complicated monetary control,[4] had been made in January. In the next month or two the ratio would cease to be a minimum requirement. Then, until details of the new arrangements had been settled, the ratio would be adapted to play a transitional role as a prudential norm around which there would be variations.

Sir Geoffrey went on to say that the Bank of England had already made some useful changes in its money market operations. In dealings with the discount houses the Bank now relied mainly on buying and selling bills, direct lending to the market having been greatly reduced.[1] The rate of interest charged on such lending was now generally somewhat above comparable market rates while the rates at which the Bank conducted its money market operations had become more flexible. In conducting operations in bills the Bank no longer quoted rates for more than one month ahead but, instead, responded to bids and offers.

Discussions were to take place with the financial institutions about these and other changes including the future of the cash ratio. When they were complete the Bank would aim to keep very short-term interest rates within an unpublished band and, in due course, suspend altogether the practice of 'an announced minimum lending rate, which would by then have lost its operational significance'.

Minimum Lending Rate

The Chancellor told the House that 'progress in reducing inflation, strongly positive real interest rates, a noticeable slackening in the growth of sterling M3 in recent months, and a marked fall-off in bank lending point towards a further reduction in [interest] rates'. The increases in taxation now being proposed would make possible an immediate reduction. Accordingly, the Bank of England was that day, with his approval, reducing minimum lending rate by two percentage points to 12 per cent.

PUBLIC EXPENDITURE

Sir Geoffrey pointed out that further progress towards lower inflation and lower interest rates did not depend primarily on improvements in funding techniques or in managing the money markets, although these were both important. 'The overriding need is for more effective restraint of public spending.' In the past year public expenditure had imposed a 'severe strain on the budget', most of the increased spending having been caused by the effects of the recession being worse than expected.

The recession had also, inevitably, had an adverse effect on the financial situation of most nationalised industries. It had meant an increase in the total of the 1980-81 external financing limits for these industries of some £900 million, over half of which had been for the steel industry (see p 75). Some of the nationalised industries were now taking steps to reduce the overmanning and inefficiency built up over the years. On defence, there had been substantial overspending,

[1]The Bank of England announced the same day the issue by tender of £1,000 million of 2 per cent indexed stock, redeemable in 1996. Both principal and interest would be indexed to the movement in retail prices.

[2]On 27 March the Bank announced the issue by tender of £1,000 million of 11·5 per cent stock, redeemable in 1985.

[3]Under monetary base control the central bank is able to control the money supply by acting on the monetary base as it can readily control its constituent elements. The monetary base is usually regarded as comprising bank holdings of notes and coin and bank deposits at the central bank. Other components, such as notes and coin in circulation with the public, may also be included.

[4]Control by the reserve asset ratio requires banks to keep a minimum proportion of their eligible liabilities in reserve assets, consisting of deposits at the Bank of England and loans at call to the discount market.

[1]The Bank's new approach to money market management was outlined in a document issued on 12 March, *Monetary Control: Next Steps*.

of £260 million, over and above a cash limit that had already been increased by £200 million. Total cash spending by local authorities appeared to have been much higher than allowed for in the 1980 Budget (see p 125, 1980).

All these developments had prevented the Government from securing in 1980-81 the full 5 per cent cut in the volume of expenditure planned by the previous Government. The present Government had nevertheless achieved a reduction of about 3·5 per cent (£3,500 million). Moreover, since it had entered office, numbers employed had fallen by 35,000 in the Civil Service and by the equivalent of some 40,000 full-time staff in local government.

Sir Geoffrey expected some of the upward pressures on public sector spending to continue in 1981-82. The cost of special employment measures, for example, would be no less than £1,000 million. A total of 440,000 opportunities would be offered in the Youth Opportunities Programme, twice as many as in 1979-80. The Temporary Short-time Working Compensation Scheme was, in addition, supporting nearly 700,000 people.

This need to increase spending on some programmes could not justify accepting 'the wrong fiscal balance', the Chancellor commented, and this had been the reason for the decision in November 1980 to reduce the cash for most of the remaining government programmes by £1,400 million. Although these 'substantial cuts' would go a long way to offset the other increases he had described, they did not go far enough 'to avoid the need for substantial increases in taxation'.

The White Paper on public expenditure published that day (see pp 104-10) showed a planned volume of public expenditure for 1981-82 that would be much the same as the expected outturn for 1980-81. Various developments since the White Paper had gone to print, including the withdrawal of the plans for accelerated coal pit closures, had made it prudent to increase the contingency reserve. There would also be some additional expenditure to help with industrial fuel costs (see below). These would together add about one-third of 1 per cent to the volume of expenditure in 1981-82 and the resulting planning total would be over 3 per cent higher than the Government had intended.

The Government's decisions for the future were designed to ensure that the volume of spending fell after 1981-82. The White Paper showed a planned fall of 4 per cent by 1983-84 but the Government could spend even on that scale only if it could afford to do so. During the annual review later in the year the Government would examine closely the possibility of further reductions in spending plans.

Discussing the programmes in cash terms, Sir Geoffrey told the House that in 1979-80 government spending on programmes had amounted to £77,000 million. The corresponding figure would be nearly £94,000 million in 1980-81 and about £104,000 million in 1981-82. The rise would be even greater if debt interest were included. An important part of the increase in total expenditure between 1979-80 and 1980-81 had been the rise in the pay bill of the public services resulting from the awards recommended by the Clegg Commission (see p 62, 1979) and similar catching-up exercises, many of which had included staged settlements. The Clegg awards and staged settlements alone accounted for an increase of £2,500 million between the two years. The Chancellor explained that this Government had had to make provision for the consequences of previous incomes policies. He felt that the significance of those consequences and the extent of the problem that they presented had 'still not been widely recognised or understood', pointing out that the pay bill for the public services in 1980-81 of about £30,000 million was some 25 per cent higher than in the previous year. This represented an increase twice as fast as had occurred in the private sector, where much of the overall cost of pay settlements had been offset by a reduction in numbers employed or in hours worked. Thus the cash cost of government had been growing much faster than the cash income of the rest of the economy that had to support it. Therefore, 'after the recent large increases it is now both fair and essential that public service pay should grow more slowly'. Pay accounted for as much as 60 per cent of the major public expenditure programmes such as education and health, which was why it was so important to work out improved ways of settling public service pay.

Sir Geoffrey expressed the view that the present system of control of public expenditure did not display 'the consequences of spending decisions as plainly as possible'. There was, he felt, a case for planning in volume terms (that is, at constant prices) but this led to 'an inevitable tendency to assume that a given quantity of goods and services will definitely be available, however much its costs may have risen'. For this reason, it was essential that the control and planning systems should focus much more closely on the money actually spent. The Government had therefore 'decided to make a major shift in the planning and control of spending from volume to cash', taking further the implementation of cash limits introduced by the previous Government (see pp 209-10, 1976). The first change, from 1981-82 onwards, would be in the operation of the contingency reserve. Whereas until now only decisions that increased the volume of spending during the year were charged to the reserve, the new method would be cash control. Decisions to increase cash limits, in respect of pay and prices as well as volume, would be treated as a charge on the reserve. This would be set at £2,500 million, equal to about 2·5 per cent of all programmes. 'This allows both for the wider coverage resulting from the switch to a cash basis and for the increased provision to allow for developments since the White Paper.'

The second change, 'even more fundamental', would be in the method of annual reviews of public spending. Public spending for 1982-83 would be planned in terms of the cash available for the year. Departments would be obliged from the outset to form a view as to what their money would buy, a change to taking decisions in terms

of cash that would make a major contribution to improving financial management.

SOCIAL SECURITY

Sir Geoffrey pointed out that by far the biggest element of public expenditure was the social security programme, accounting for more than one-quarter of the total. In the previous decade it had grown very fast, partly because of the increase in the number of beneficiaries and the replacement of child tax allowances by child benefit (see p 244, 1975), and also because of real increases in rates of benefit. The cost of the programme in 1981-82 amounted to £27,000 million, about £1,000 per year for every worker. 'We cannot, therefore, avoid considering this programme as closely as any other.'

The Chancellor estimated that prices would rise by 10 per cent in the year ending November 1981. The increase in pensions and other benefits made in the 1980 uprating had proved to be 1 per cent more than required to keep pace with inflation as prices had risen by less than expected between November 1979 and November 1980. State retirement pensions, public service pensions and most other benefits, including supplementary, unemployment and sickness benefits, would therefore be increased in November 1981 by about 9 per cent. This reflected the expected rise in prices and at the same time adjusted for the over-provision made in 1980. The increase in benefits would be 'substantial'. (See pp 120-2 for full details of the proposed changes in the social security programme.)

BUSINESS TAXATION

Oil Companies

The Chancellor explained that difficulties experienced in the past year in the production of North Sea oil had led to a downward revision of output levels for the next five years. However, while production was likely to be lower than once expected, oil prices would be much higher. Sir Geoffrey believed that 'the Exchequer should properly look to this area for additional revenue beyond what will accrue from existing taxes'.

The intention to introduce a new tax, supplementary petroleum duty (SPD), had been announced in November 1980 (see p 363, 1980). The tax would be at a rate of 20 per cent on the total value of oil and gas produced, after deduction of an allowance of 1 million tonnes a year for each field, and would be deductible in computing liability to petroleum revenue tax (PRT) and corporation tax. In response to representations by the industry, gas supplied to the British Gas Corporation from earlier North Sea fields would be exempted. SPD would be refundable where fields did not fully recover their initial development expenditure. Payment would be by monthly instalments, which would 'make a useful contribution to achieving a smoother public sector cash flow through the year'. The Chancellor was also inviting the industry to consider with the Inland Revenue how a 'broadly similar pattern of payments' might be introduced for PRT. The new tax, together with changes in the reliefs available under PRT (which Sir Geoffrey had said in November 1980 were under review – see p 363, 1980), would raise £1,000 million in 1981-82. In later years there would be 'a substantial continuing yield'.

The Chancellor told the House that the oil companies had urged that his objectives of more revenue and a more efficient and economical pattern of tax relief could be better secured by 'a thoroughgoing reform of PRT', thus making unnecessary the introduction of a permanent new tax. This would not prove feasible but Sir Geoffrey admitted the possibility that modified proposals to produce a broadly similar yield might be forthcoming. He therefore proposed that SPD should in the first instance have legislative effect only for the 18 months to the end of June 1982. This would 'allow ample time for further study and consultation' before the introduction of permanent arrangements in the 1982 Finance Bill.

Banks

The Chancellor went on to say that in recent years bank profits had risen sharply, both in absolute terms and in contrast with the experience of most other businesses. 'A substantial part of these profits is the direct consequence of high interest rates in recent years: this applies in particular to the so-called "endowment profit" on current accounts on which no interest is paid.' Sir Geoffrey pointed out that recent levels of bank profits were, in part, a cyclical recovery from the low levels of the mid-1970s. Also, the banks had had to provide for the effects of inflation 'and to rebuild the reserves needed to underpin the valuable support that they give to businesses in difficult times'. This was why he had taken no action in 1980. However, in fulfilling his undertaking 'to keep developments under review', he had observed further high banking profits in 1980, 'probably at a level not very different from the record profits of 1979'. These were in striking contrast to the sharply reduced profits of industrial companies and, accordingly, he could not avoid the conclusion that a special fiscal contribution from the banks was required.

This would be in the form of a special once-for-all tax on bank deposits. Non-interest-bearing sterling deposits in excess of £10 million, averaged over the final three months of 1980, would be taxed at 2·5 per cent. The tax would not be deductible against corporation tax and, although it would apply to banking businesses in general, Sir Geoffrey judged that the clearing banks would account for about 90 per cent of the revenue. An estimated £400 million would be raised in three instalments over the second half of 1981-82, making possible some help to be given to the rest of industry which otherwise could not be afforded.

INDIRECT TAXATION

'People in employment have in general had more money to spend', the Chancellor pointed out and added that it was 'necessary to look principally to the personal sector for the additional revenue needed'. He was not proposing any increase in the 15 per cent rate of value added tax (VAT);

most of the extra revenue needed would have to come from excise duties, as in 1980. Increases would be necessary merely to keep the rates of duty in line with the rise in prices. Nevertheless, many of the duties would be lower in real terms than previously. He was proposing to raise excise duties so as to produce in total about twice as much additional revenue as would be needed to compensate for one year's inflation.

The duty on alcoholic drinks was to be increased by an amount which, including VAT, represented about 4 pence on the price of a pint of beer, 12 pence on a bottle of table wine, 25 pence on a bottle of sherry and 60 pence on a bottle of spirits. On tobacco the duty was to be raised by an amount which, including VAT, represented 14 pence on the price of a packet of 20 cigarettes. The duties on matches and mechanical lighters, which had not been raised since 1949, would be increased substantially. The duties on petrol and derv would be raised by the equivalent, including VAT, of 20 pence a gallon. Vehicle excise duty on all vehicles was to be increased by about 15 per cent. The annual duty on cars would thus rise from £60 to £70. The Chancellor proposed to extend car tax, charged at 10 per cent of the wholesale value and additional to VAT, to motor cycles, scooters and mopeds.

Together, these changes in indirect taxation would raise about £2,400 million in a year. Summarising, Sir Geoffrey said: 'With the partial exception of the road fuel and vehicle excise duties, the increases fall on those products which are bought by private consumers. Had all these excise duties simply been increased in line with inflation this would have added one percentage point to the RPI [retail prices index]. The increases that I propose could add up to a further point. This is the maximum impact effect on prices. But in the longer run, by reducing public borrowing they will help to bring inflation down and ensure that it stays down.'

PERSONAL TAXATION

Income Tax

The Chancellor's main priority on income tax was once again 'the need to contain public borrowing so as to make it possible to secure lower interest rates and ease the conditions in which the trading sector of the economy has to operate'. Sir Geoffrey said that inflation raised the real burden of income tax as the real value of allowances and rate bands, fixed in money terms, declined. However, raising tax allowances in line with the rate of inflation (see p 426, 1977) would now mean increasing them by about 15 per cent. The Chancellor pointed out that, although the incomes of most people had been rising in both money and real terms, the profits of many companies had virtually disappeared, 'with serious implications for jobs and investment. In these circumstances it will not be possible this year to make any increase in the income tax allowances or rate bands.' Full indexation would have reduced the yield of income tax over a full year by £2,500 million. However, the decision, which had 'not been taken lightly', enabled child benefit and one-parent family benefit to be fully protected against price rises in line with the forecast rate of inflation.

Fringe Benefits

Sir Geoffrey told the House that the tax scales applicable to company cars fell well short of true values. He had proposed an increase of 20 per cent in the scales, to take effect from April 1981, in his 1980 Budget (see p 117, 1980) and now proposed a further rise of 20 per cent, effective from April 1982. Company cars that received little or no business use were already subject to a higher schedule of taxation; the business mileage below which this applied was to be raised from 1,000 miles (1,609 kilometres) to 2,500 miles (4,023 kilometres) a year.

In his 1980 Budget the Chancellor had warned employers that he would consider action if the practice of providing free petrol continued to spread. The warning had been largely ignored and he therefore proposed measures which would ensure that tax would be chargeable in cases where petrol was provided for the private use of a higher-paid employee or director.

Measures would be taken to make taxable the provision of a season ticket, by arrangement between an employer and a transport authority, for an employee's travel to and from work and also the use of a credit card by which an employee could charge goods and services to the employer.

The decision in a recent court case (concerning the Vestey company) had shown that the rules dealing with the avoidance of tax by means of transfers of assets abroad meant that individuals could benefit from such transfers even though they themselves had not carried them out. Sir Geoffrey now proposed measures to ensure that individuals paid tax on any transfers they received.

HELP FOR BUSINESS

Tax Burden

The Chancellor told the House that, in order to bring down interest rates, most of the revenue raised would have to be devoted to reducing the PSBR. However, some could and should go towards easing the tax burden on business.

The stock relief scheme, on which a consultative document had been issued in November 1980 (see p 363, 1980), would be reformed to deal with certain abuses. The threat of clawback (under which tax relief was withdrawn when the value of stocks fell), which 'was jeopardising the financial position of industry in the current recession', would be lifted. Among more detailed changes, relief would not be restricted to stocks financed by trade credit or other borrowing. Tax on profits earned in 1981 would be paid mostly in 1982-83.

Energy Prices

Sir Geoffrey went on to refer to the recent report of the National Economic Development Council which had shown that, 'while prices for the vast majority of industrial customers in this country remain in line with Europe, a limited but important number of large users of electricity and gas pay more for supplies than competitors in Europe'.

The external financing limits for the gas and electricity industries would therefore be raised by some £120 million in 1981-82, which would allow flexibility in pricing for industrial users. The report had also drawn attention to the difficulties being faced by industry in the recession in obtaining capital in order to convert from oil to coal. The Government was accordingly making available £50 million over the following two years for grants towards the cost of converting from oil-fired to coal-fired boilers. The expenditure would be at least partly offset by an increase in coal sales, any net cost being met from the contingency reserve.

CONSTRUCTION

Sir Geoffrey felt that the construction industry was 'particularly hard pressed'. It was 'in any case sensible to remove unnecessary obstacles to development'. Three changes to development land tax would stimulate activity and employment in the industry: an extension for two years of the system of relief from tax which could be claimed by developers of industrial property for their own use; more liberal allowances for property extensions; and a reducted burden of development land tax on builders acquiring land for residential development from, for example, local authorities.

There would also be an increase in the initial allowance on expenditure incurred in the construction of new industrial buildings from 50 per cent to 75 per cent. This measure, the annual cost of which would rise to £25 million by 1984-85, would benefit not only manufacturing but also employment in the construction industry.

CAPITAL TAXES

In a year in which no income tax relief was being granted the Chancellor felt unable to make major changes in capital taxation but he did 'propose to continue the process of making more sense of the structure of capital taxes', explaining that the structure of capital transfer tax (CTT) meant that people were deterred from transferring property during their lifetime. 'This is undesirable. Business property, in particular, should be permitted to pass more freely from one generation to another.' He therefore proposed to recast the scale for the taxation of transfers made during a person's lifetime. At the bottom end the rate would remain half that applying to transfers completed after death while at the top end it would become two-thirds. The rules on cumulation would also be changed. The rate of tax on any transfer of value had hitherto been governed by the cumulative total of transfers, whenever made, but cumulation would in future be restricted to transfers made within the preceding ten years. Roll-over relief from capital gains tax would be extended from gifts between individuals to gifts from individuals to trustees and there would be an increase from £2,000 to £3,000 in the amount of lifetime gifts per donor exempt from CTT in any one income tax year.

The Chancellor thought that CTT was one factor restricting the supply of land for entrants to the farming industry. It was important to maintain a proper balance between owner-occupied and let land. Transfers of agricultural land not subject to a lease qualified for relief from CTT at a rate of 50 per cent while no relief applied to transfers of let agricultural land; in future relief of 20 per cent would apply to such land. The facility to pay CTT by interest-free instalments would be extended to transfers of let agricultural land and the ceiling of £250,000 for payment by this method would be removed. Sir Geoffrey also intended to deal with certain devices for avoidance of capital gains tax.

ENTERPRISE

The Chancellor recalled that in his 1980 Budget he had introduced a number of measures to help small firms, including enterprise zones, a venture

Table 2

Summary of Central Government Transactions

£ million

	1980-81 Budget forecast	1980-81 estimated outturn	1981-82 forecast
Consolidated Fund			
Revenue	65,415	66,814	75,524
Expenditure	73,175	76,728	83,697
Deficit	7,760	9,914	8,173
National Loans Fund			
Consolidated Fund deficit (as above)	–7,760	–9,914	–8,173
Other transactions:			
Receipts	10,000	9,950	11,100
Payments	–12,905	–13,321	–15,134
Total net borrowing by the National Loans Fund	–10,665	–13,285	–12,207
Other funds and accounts (net)	+1,352	+525	+710
Central Government Borrowing Requirement	–9,313	–12,760	–11,497

Table 3
Taxation and Miscellaneous Receipts

£ million

	1980-81 Budget forecast	1980-81 estimated outturn	1981-82 forecast
Taxation			
Inland Revenue			
Income tax	23,830	24,704	28,202
Surtax	8	5	3
Corporation tax*	4,860	4,650	4,600
Petroleum revenue tax	2,560	2,420	2,210
Supplementary petroleum duty	–	–	1,850
Capital gains tax	490	520	575
Development land tax	25	24	25
Estate duty	17	27	15
Capital transfer tax	400	415	445
Stamp duties	670	635	775
Special tax on banking deposits	–	–	400
Total Inland Revenue	*32,860*	*33,400*	*39,100*
Customs and Excise			
Value added tax	12,450	11,300	12,650
Oil	3,650	3,550	4,800
Tobacco	2,775	2,750	3,220
Spirits, beer, wine, cider and perry	2,825	2,600	3,200
Betting and gaming	475	465	510
Car tax	575	455	550
Other excise duties	10	10	25
European Community own resources†			
Customs duties, etc	950	800	835
Agricultural levies	290	205	210
Total Customs and Excise	*24,000*	*22,135*	*26,000*
Vehicle excise duties	1,411	1,403	1,628
National insurance surcharge	3,509	3,585	3,809
Total Taxation	**61,780**	**60,523**	**70,537**
Miscellaneous Receipts			
Broadcast receiving licences	535	529	552
Interest and dividends	300	246	222
Other‡	2,800	5,516	4,213
Total	**65,415**	**66,814**	**75,524**
*Corporation tax receipts include advance corporation tax:			
Net of repayments	1,700	1,810	1,760

†Including the 10 per cent of own resources refunded by the Community to meet the costs of collection and proceeds from the special sales of assets.
‡Including estimated receipts of £940 million in 1980-81 and £1,200 million in 1981-82 in respect of oil royalties.

capital scheme, improved tax relief for small workshops and a reduction in the rate of corporation tax for small companies (see pp 120-1, 1980). All these measures had 'been widely welcomed . . . . But we can and must do more to help existing small businesses to grow, and to encourage new businesses to start up. This remains an essential key to new jobs.' To this end, six changes would be made and two new schemes introduced.

First, the registration threshold for VAT would be raised in line with prices, from an annual turnover of £13,500 to one of £15,000.

Secondly, there would be an increase from £70,000 to £80,000 in the limit up to which the lower rate of corporation tax, 40 per cent, applied. Also, the progression to payment at the full rate of 52 per cent would be made gentler; the full rate would now become payable when annual turnover reached £200,000 instead of £130,000.

Thirdly, the conditions governing tax relief on interest payments on money borrowed to invest in industrial co-operatives and partnerships would be relaxed.

Fourthly, the Inland Revenue would be asked to issue a consultative document in the summer,

Table 4

Supply Services and Consolidated Fund Standing Services

£ million

	1980-81 Budget forecast	1980-81 estimated outturn	1981-82 forecast
Supply Services			
I. Defence	10,832	11,300	12,138
II. Overseas services	1,409	1,397	1,581
III. Agriculture, fisheries and forestry	604	709	652
IV. Trade, industry, energy and employment	3,945	5,741	4,906
V. Government investment in nationalised industries	648	1,390	926
VI. Roads and transport	1,510	1,516	1,733
VII. Housing	2,914	3,030	2,360
VIII. Other environmental services	429	423	520
IX. Law, order and protective services	1,889	1,945	2,229
X. Education and libraries, science and arts	2,472	2,463	2,632
XI. Health and personal social services	8,766	8,823	9,572
XII. Social security	7,311	7,311	9,438
XIII. Other public services	1,091	1,070	1,216
XIIIA. House of Commons administration	11	13	14
XIV. Common services	1,548	1,592	1,922
XV. Scotland	2,505	2,606	2,737
XVI. Wales	995	1,014	1,101
XVII. Northern Ireland	990	959	1,118
XVIII. Rate support grant, financial transactions, etc	14,743	15,056	15,315
Total	*64,612*	*68,358*	*72,110*
Supplementary provision	153	—	31
Contingencies (net)	—	—	1,600
Total Supply Services	*64,765*	*68,358*	*73,741*
Consolidated Fund Standing Services			
Payment to the National Loans Fund in respect of service of the national debt	4,950	5,180	6,200
Northern Ireland—share of taxes, etc	1,136	1,23€	1,279
Payments to the European Community, etc	2,301	1,930	2,450
Other services	23	24	27
Total Consolidated Fund Standing Services	*8,410*	*8,370*	*9,956*
Total	**73,175**	**76,728**	**83,697**

with a view to legislation in the 1982 Finance Bill, on changes in the tax structure attendant upon permitting purchases of their own shares by family and other small businesses.

Fifthly, the venture capital scheme[1] introduced in the 1980 Budget would be extended. The scope of the scheme would be broadened from investment by individuals to investment by companies, some of which might be able to provide funds for expanding small firms.

Sixthly, the limit above which redundancy and other payments made on termination of employment became taxable would be raised from £10,000 to £25,000. This, Sir Geoffrey hoped, would encourage those who had become unemployed to set up in business.

[1]Under this scheme losses on equity investment in unquoted trading companies may, for tax purposes, be offset against income.

The first of the new measures was a loan guarantee scheme. The Government had reached agreement in principle with the major clearing banks and the Industrial and Commercial Finance Corporation on a pilot scheme, initially to run for three years, whereby loans of up to £75,000 would be available for periods of between two and seven years. Government guarantees would be available for 80 per cent of each loan and there would be a maximum of £50 million to be lent in each year.

The second new measure was a business start-up scheme, enabling an investor in a new enterprise to obtain relief against income tax on up to £10,000 invested in any one year, subject to the investment being maintained for at least five years.

Sir Geoffrey said that his measures to help business were 'essential if we are to replace the

jobs that are disappearing elsewhere in the economy'. He went on to announce that the Government would be launching a business opportunities programme 'to publicise the help, advice and incentives available to small business'. There would be improvements in the advisory service for small businesses in urban areas in England and co-ordination of the advisory services provided by the Council for Small Industries in Rural Areas and the small firms service of the Department of Industry.

[See also article on schemes to help small firms, p 115.]

CONCLUSION

Commending his Budget to the House, the Chancellor said that the fight against inflation and a redressing of the economic balance in favour of business and industry would be fulfilled by his proposals. In the year ahead the burden of income tax and excise duties had to rise in order to achieve lower interest rates and thus improve the prospects for industry and employment. Although the present economic downturn had been 'unusually severe', it was now approaching its end. When the recovery began Britain would 'be better fitted than for many years to take advantage of the new opportunities. For important lessons have been painfully learnt. A greater sense of realism has been restored.' The prospect ahead, Sir Geoffrey concluded, was of lower inflation and unemployment 'and a reversal of the upward trend in the burden of taxation'.

BUDGET STATISTICS

Tables 2, 3 and 4, taken from the *Financial Statement and Budget Report 1981-82* (HMSO, £4·40, ISBN 0 10 219781 4), show the major items in the expected revenue and expenditure of central Government and its borrowing requirements for 1981-82.

OPPOSITION VIEW

Speaking for the Official Opposition in the House of Commons on 11 March, Mr Peter Shore accused the Government of launching 'a new and savage attack' upon Britain's 'gravely damaged and weakened economy' (*Hansard*, Vol 1,000, No 65, cols 909-19). The Chancellor, he said, had 'massively reduced purchasing power' by failing to index personal allowances and had also 'raised the whole range of indirect taxes, apart from VAT .... The tax on petrol and derv will be unwelcome not only to motorists in general, but to industry and above all the rural areas of this country.' Mr Shore expressed the view that the burdens had 'not been equally spread .... Those on low incomes will bear the largest proportion of the rise in their tax.'

Turning to the Government's monetary policy, Mr Shore admitted that inflation, 'the prime target', had been 'squeezed' but employment and production had been 'nearly throttled'. Interest rates in 1980 had been 'pushed to unprecedented levels' and one of the consequences had been the rapid appreciation of sterling. This had acted as a tax on exports and a subsidy on imports, 'the last thing which a trading nation such as ours wants or can afford'. The reduction in minimum lending rate, although welcome, was overdue and, in any case, had already been discounted.

Public Expenditure Plans

In the White Paper on public expenditure,[1] published on Budget day, the Government states its intention to reduce planned public expenditure from an estimated £79,200 million (at 1980 survey prices) in 1980-81 to £76,000 million in 1983-84, a fall of 4 per cent. The White Paper points out that the recession has exerted 'upward pressure' on items of expenditure such as unemployment benefit and special employment measures, which has been only partly offset by a major fall in net contributions to the European Community budget and substantial reductions in the majority of other programmes.

Introduction

Total expenditure, both the outturn now estimated for 1980-81 and the planning totals for future years, is higher than in the 1980 White Paper (see pp 123-30, 1980) and higher than the Government wishes in view of its financial and economic objectives. This is regarded as a development requiring 'the most serious attention' during the 1981 expenditure survey in which plans for 1982-83 onwards will be reviewed. For 1980-81 overspending is expected on defence and, possibly, on the total current expenditure of local authorities. Spending in 1980-81 on many other programmes has been closer to plan than expected so that the original provision for shortfall is now thought to have been an over-estimate.

The Government has made substantial reductions to offset as far as possible the 'upward pressures' on expenditure. Besides the major reduction in Britain's net contribution to the European Community budget, cuts amounting to some £1,500 million have been made in the majority of spending programmes in 1981-82 (see pp 362-3, 1980) and these have been carried forward into the later years.

Cash Spending

In accordance with past practice, most of the White Paper is in the form of volume plans expressed in constant prices. However, 'the Government's policy is that all volume plans are to be regarded as no more than indicative working targets', their attainment depending on the availability of finance. 'It is actual cash expenditure which must be considered in relation to, and made consistent with, the Government's objectives for taxation, the borrowing requirement and the money supply.'

[1] *The Government's Expenditure Plans 1981-82 to 1983-84.* Cmnd 8175. HMSO, £9·30. ISBN 0 10 181750 9.

Table 1
Public Expenditure Plans

£ million at 1980 survey prices (except first column)

	Cash spending 1981-82	Estimated outturn 1980-81	Plans 1981-82	Plans 1982-83	Plans 1983-84
Public Expenditure Programmes					
1 Central government (including government finance for nationalised industries)	76,500	58,435	58,655		
2 Local authorities	25,500	20,250	19,200	76,900	75,200
3 Capital expenditure of certain public corporations	1,500	1,190	1,130		
Adjustments					
4 Net overseas and market borrowing of nationalised industries*	−800	−500	−585	−400	−550
5 Special sales of assets (net)	−200	−325	−175	−125	−125
6 Contingency reserve	2,000	193†	1,500	2,000	2,000
7 General allowance for shortfall	−700	—	−500	−500	−500
8 Planning total	104,000	79,245	79,225	77,900	76,900
9 Percentage change on previous year		+1·9	—	−1·6	−2·4
Memorandum Items					
A Debt interest (not included above):					
Gross‡	13,700	10,820	10,400	10,300	10,100
Net§	6,100	4,290	4,600	4,600	4,600
B Net borrowing of nationalised industries (included in items 1 and 4)	1,000	1,550	815	−50	−700

* Including Civil Aviation Authority.
† Balance remaining expected to be spent by the end of the year.
‡ Total payments of debt interest by the public sector.
§ Only those payments of debt interest which have to be financed from taxation or further government borrowing.

Total cash spending, which amounted to some £77,000 million in 1979-80, is now expected to total £94,000 million in 1980-81 and £104,000 million in 1981-82. An important element is the wage bill for public services, which has risen by about 50 per cent between 1978-79 and 1980-81. Large pay increases resulted from the 'catching-up' commitments inherited from the previous Government.

It is intended that in future more weight be given to prospective cash costs in the planning of expenditure, particularly in the year immediately ahead. Accordingly, for the first time in this annual series of White Papers, cash limits are included for the coming year, 1981-82 (see first column of Table 1). Because the expenditure plans for 1981-82 are at 1980 survey prices (broadly, the prices of late 1979) they are lower than the cash-limited figures. These figures include provision for inflation averaging 31 per cent over the period of some two years between late 1979 and 1981-82 (although the provision varies between programmes because of the different movements in cost). Between late 1979 and late 1980 pay increases averaged 25-30 per cent and price increases about 19 per cent. The cash-limited figures also provide for an average increase in prices other than pay of 11 per cent between 1980-81 and 1981-82 while the provision for pay increases is for a rise in earnings of 6 per cent in annual settlements due before 1 August 1981 and, provisionally, of the same amount for settlements due after that date.

Some 60 per cent of public expenditure is subject, directly or indirectly, to cash limits (external financing limits in the case of nationalised industries). The Government is examining the possibility of extending the use of cash limits. However, some areas would still need to be excluded, mainly 'demand determined' services, such as social security benefits. Although no direct cash limits apply to local authority current expenditure, the major contribution by central government to such expenditure is the rate support grant,[1] which is subject to cash limits, as are some specific grants.

Each cash limit represents the maximum amount of cash that the Government proposes to spend on the services concerned. (The only exception in 1981-82 would occur if, following the recommendations of the Armed Forces Pay Review Body, forces' pay increases by more than the 6 per cent provided in the overall cash limit for defence.) If any overspending occurs, the general policy is for a corresponding deduction to be made from the limit for the following year and for a full investigation to be initiated.

Public Expenditure and Gross Domestic Product

In 1980-81 public expenditure (including debt interest) is estimated at 44·5 per cent of gross domestic product. The Government's intention for 1981-82 is that the relative cost of the plans (excluding debt interest) should fall by about 1 per cent, 'which will require a much lower rate of

[1]Rate support is a system whereby central government supplements the finances for current expenditure of local authorities so that they can provide services for which they are responsible to similar standards while reducing disparities in their rates.

Table 2

Changes in Public Expenditure since the 1980 White Paper (Cmnd 7841)

£ million at 1980 survey prices

	1980-81	1981-82	1982-83	1983-84
Defence	+130	−193	−190	−190
Overseas aid and other overseas services:				
Overseas aid	−1	−7	−10	−10
European Community contributions	−644	−747	−930	−1,140
Other overseas services	+1	−3	—	—
Agriculture, fisheries, food and forestry	+144	+12	+30	+20
Industry, energy, trade and employment	+599	+1,276	+900	+490
Transport	−53	−58	−30	−30
Housing	+181	+8	+20	−70
Other environmental services	−53	−75	−80	−80
Law, order and protective services	−18	−49	−40	−40
Education and science, arts and libraries	—	−151	−180	−150
Health and personal social services	−87	+67	+70	+70
Social security	+44	+884	+1,700	+1,400
Other public services	−28	−6	−10	−20
Common services	+6	+42	+30	+30
Scotland	−12	−23	−30	−40
Wales	—	+2	—	—
Northern Ireland	+72	+62	+80	+90
Government lending to nationalised industries	+1,194	+1,215	+590	+520
Adjustments:				
Net overseas and market borrowing of nationalised industries	−378	−227	−50	+50
Special sales of assets	+175	−125	−75	−75
Contingency reserve	−967	+100	+250	−300
General allowance for shortfall	+1,120	+340	+340	+340
Planning total	+1,425	+2,345	+2,400	+900
Debt interest:				
Gross	+820	+800	+1,000	+1,300
Net	+790	+1,100	+1,300	+1,600
Net borrowing of nationalised industries	+815	+990	+550	+550

increase in public service earnings than over the past two years'.

Changes in Volume since the 1980 White Paper

Total expenditure has increased since the last White Paper (Cmnd 7841) in March 1980 and is also rather higher than expected at the time of the Chancellor's economic statement of 24 November 1980 (see pp 362-4, 1980). The volume of expenditure is estimated to be almost 2 per cent higher in 1980-81 than was planned in 1980. In 1981-82 the planned volume total would be about the same as in 1980-81, that is 3 per cent higher than shown in the 1980 White Paper but still 5 per cent lower than the last Government had planned. A decline after 1981-82 is planned (see Table 1).

Table 2 shows the changes in public expenditure since the 1980 White Paper and Table 3 gives the allocation of expenditure between programmes.

Social security is the largest single programme, rising to well over one-quarter of the total by the end of the period. The plans reflect the assumed increase in unemployment, the rise in the number of retirement pensioners and other changes, including the decision announced by the Chancellor on 24 November 1980 (see pp 362-3, 1980) to take into account in the 1981 uprating the over-provision in the November 1980 uprating (this having occurred because of the lower than expected increase in prices). The large increases since the 1980 White Paper for 1981-82 and later years 'are principally due to the change in the unemployment assumption'. Excluding school-leavers, this rises to 2·5 million in 1981-82 and to 2·7 million in 1982-83 and 1983-84.

The other main area where the Government has provided for increased spending is employment measures and industrial support. It announced on 26 January that £620 million would be provided to BL in 1981-82 and £370 million in 1982-83 (see pp 49-50) while £130 million will also be provided to Rolls-Royce in 1981-82. The Secretary of State for Employment announced on 21 November 1980 (see pp 365-6, 1980) increased expenditure on special employment measures in 1981-82 to allow for the continuation of existing schemes and the expansion of others, notably the Youth Opportunities Programme. Provision has been made for the measures to continue at their higher level in the later years. Further additions reflect new forecasts of take-up of the Temporary

Table 3

Total Public Expenditure by Programme

£ million at 1980 survey prices

	Estimated outturn 1980-81	1981-82	1982-83	1983-84
Defence	9,746	9,750	10,050	10,350
Overseas aid and other overseas services:				
Overseas aid	803	741	680	680
European Community contributions	380	392	390	390
Other overseas services	465	459	460	460
Agriculture, fisheries, food and forestry	1,150	1,005	980	920
Industry, energy, trade and employment	3,899	4,023	3,080	2,460
Transport	2,824	2,736	2,670	2,670
Housing	4,256	3,143	2,720	2,230
Other environmental services	3,064	2,976	2,880	2,860
Law, order and protective services	2,833	2,886	2,960	3,000
Education and science, arts and libraries	8,909	8,544	8,360	8,190
Health and personal social services	9,067	9,234	9,400	9,480
Social security	19,775	21,161	21,600	21,400
Other public services	941	973	930	920
Common services	1,106	1,183	1,180	1,230
Scotland	4,399	4,721	4,170	4,100
Wales	1,737	1,676	1,630	1,600
Northern Ireland	2,472	2,436	2,410	2,410
Government lending to nationalised industries	2,050	1,400	350	−150
Adjustments:				
Net overseas and market borrowing of nationalised industries*	−500	−585	−400	−550
Special sales of assets	−325	−175	−125	−125
Contingency reserve	193	1,500	2,000	2,000
General allowance for shortfall	—	−500	−500	−500
Planning total	79,245	79,225	77,900	76,000

*Including Civil Aviation Authority.

Short-time Working Scheme and of expenditure from the Redundancy Fund.

Expenditure on health is to rise by some £100 million in 1981-82. This takes into account savings of about £35 million through improved use of resources. The plans allow for the volume of gross spending by the National Health Service to grow by 5 per cent between 1980-81 and 1983-84.

Reductions are being carried out in expenditure on education, science and the arts, on transport and on expenditure within the responsibility of the Department of the Environment. Although planned expenditure on law and order has been reduced, it will still rise in volume terms by some 6 per cent over the planning period. Planned expenditure on defence has also been revised although the current plan provides for an increase in volume terms over the planning period which accords with the Government's undertaking to the North Atlantic Treaty Organisation to aim for real increases of about 3 per cent a year (see p 209, 1980).

Efficiency

Improved efficiency 'remains a high priority'. Severe restraint on public spending, the setting of strict cash limits and reductions in the number of civil servants all contribute to this objective. The Government intends to publish a White Paper describing the past and future work of the Civil Service Department and of departments generally in the pursuit of efficiency.

Staffing

The expenditure plans imply that manpower in the public service will continue to fall over the next few years, as it has since the present Government entered office in May 1979. The Civil Service has been reduced in size from 732,000 in April 1979 to 695,000. The Government intends a further reduction, to about 630,000 by the end of 1983-84, which would be the smallest Civil Service since the end of the second world war in 1945. The planned increase in resources for the National Health Service (see above) has led to a projected increase in manpower, which reflects the labour-intensive nature of the health service. Because of the priority which the Government attaches to defence, manpower in the armed forces is also projected to rise. Decisions were announced during 1980 which will lead to the abolition of over 430 non-departmental public bodies (see pp 48-9, 1980). Local government manpower has been cut by 50,000 since 1979 'but will need to fall at a rather faster rate in the future if local authority expenditure is to be kept within these plans. Falling numbers of school pupils will enable the education service, which employs nearly half

the total, to continue to play its part in the process.'

Budget Refunds from the European Community

The Council of Ministers of the European Community agreed on 30 May 1980 that Britain's net contribution to the Community budgets for 1980 and 1981 should be reduced substantially by means of special refunds (see pp 182-3 and 314-15, 1980) which are expected to amount to some £600 million in 1980-81 and about £825 million in 1981-82, the exact amounts depending on Britain's net contribution before refunds and on the exchange rate between sterling and the European unit of account. Britain's net budget contribution in 1981-82 is now expected to be some £450 million at 1980 survey prices (about £530 million at current prices), £750 million lower than the corresponding figure in the 1980 White Paper. For subsequent years it is assumed that Britain's net contribution will continue at the same level in real terms as in 1981-82, the actual figure depending on the outcome of the Community's budget restructuring review provided for in the 30 May agreement (see p 182, 1980).

Special Sales of Assets

Proceeds from special sales of assets by the Government in 1980-81 are expected to amount to about £325 million (at 1980 survey prices), compared with the announced target of £500 million. The shortfall is partly in receipts from sales of commercial and industrial property owned by new towns. The total includes receipts from sales of shareholdings of the National Enterprise Board in Ferranti and Fairey, of shares in British Aerospace, of long leases of motorway service areas, of property owned by new towns and the Government and of North Sea oil licences, partly offset by a reduction in receipts for advance payments for oil.

Although the timing of individual sales is uncertain, those planned for 1981-82 are expected to yield some £500 million at outturn prices.

Analysis by Economic Category

The White Paper contains an analysis of programmes by economic category (and by spending authority, see below) up to 1981-82. This cannot be extended to 1983-84 as it is the Government's policy not to take decisions at this stage on the detailed allocation of expenditure within programmes for the later years.

The main trends in current expenditure in 1981-82 are the increases in current grants to persons, particularly social security benefits (as a result of rising unemployment) and a fall in housing subsidies. Capital expenditure is expected to decline by over £1,000 million if the net overseas and market borrowing of nationalised industries is taken into account. Most of the fall is in fixed capital formation; this is reflected in the expected decline in capital expenditure on construction from £7,504 million in 1980-81 to £7,077 million in 1981-82.

Analysis by Spending Authority

Central Government and Nationalised Industries

Central government expenditure (see Table 4) accounts for nearly three-quarters of total programmes. Nearly half is on goods and services, mainly for defence and the National Health Service, social security benefits alone accounting for almost one-third.

The external financing of nationalised industries is included in the public expenditure planning total. Between 1980-81 (estimated outturn) and 1981-82 it is expected to fall from £2,500 million to £1,750 million (at 1980 survey prices). Most of the change is accounted for by a fall in net government lending to nationalised industries from £2,050 million in 1980-81 to £1,400 million in 1981-82.

Local Authorities

The rate support grant settlements for 1981-82 for England, Scotland and Wales, announced in December 1980 (see p 56), were based on the plans for local authority expenditure contained in the 1980 White Paper, modified by the Chancellor's economic statement of 24 November 1980. Table 5 gives an outline analysis of the current expenditure assumed for the purposes of distributing grant (local authorities deciding the actual distribution).

The level of central government grant to local authorities is based on their 'relevant' current expenditure (which differs in certain respects from the definition of local authority current expenditure used in the White Paper). In 1981-82 total relevant current expenditure in England, Scotland and Wales is planned to be some 3 per cent below the expected outturn for 1980-81. Aggregate Exchequer grant has been set one percentage point lower than in 1980-81: the equivalent of 60 per cent of current expenditure for England and Wales together and 66·7 per cent for Scotland.

In 1981-82, for the first year, rate support grant in England and Wales will be distributed on the basis of the block grant system provided for in the Local Government, Planning and Land Act 1980 (see pp 69-70, 1980). Grant for England and Wales has been determined separately, also for the first time, resulting in grant percentages of 59·1 and 73·4 respectively. The Act also authorised a new system for the control of local authority capital expenditure in England and Wales, which will operate from 1981-82. There will be separate controls for England and for Wales with a cash limit on aggregate local authority capital expenditure. Apart from expenditure on police, probation and magistrates' courts and certain projects of national or regional importance, local authorities will be able to decide, within the cash limits, their own priorities for expenditure.

The formal grant distribution arrangements remain unchanged in Scotland, where local authority capital expenditure will continue to be controlled under the financial planning system.

The introduction of block grant and the capital control scheme 'will not restrict the freedom of individual local authorities to determine their own current spending and the service distribution of

Table 4

Central Government Expenditure

£ million at 1980 survey prices

	Estimated outturn 1980-81	1981-82
Defence	9,746	9,750
Overseas aid and other overseas services	1,625	1,574
Agriculture, fisheries, food and forestry	943	812
Industry, energy, trade and employment	3,782	3,899
Transport	1,186	1,208
Housing	2,242	1,598
Education and science, arts and libraries	1,516	1,451
Health and personal social services	7,794	7,970
Social security	19,775	21,161
Other programmes, including Scotland, Wales and Northern Ireland	7,776	7,834
Government lending to nationalised industries	2,050	1,400
Total (excluding adjustments – see Table 1)	58,435	58,655

Table 5

Public Expenditure by Local Authorities in England, Scotland and Wales

£ million at 1980 survey prices

	Estimated outturn 1980-81*	1981-82
Current expenditure		
Education and science, arts and libraries	8,286	8,005
Local environmental services	1,841	1,740
Law, order and protective services	2,273	2,291
Personal social services	1,447	1,441
Transport	1,281	1,202
Housing	622	463
Other programmes	384	381
Total (current)	16,132	15,523
Capital expenditure		
Education and science, arts and libraries	414	356
Local environmental services	533	439
Law, order and protective services	76	87
Personal social services	66	84
Transport	704	652
Housing	1,516	1,259
Other programmes	164	175
Total (capital)	3,492	3,052
Total (current and capital)	**19,624**	**18,575**

*The original 1980-81 budgets of the local authorities indicated spending plans in excess of those contained in the 1980 White Paper; there was some moderation of plans in response to a call from central government for revised budgets. The estimated outturn figures for 1980-81 are thus the corresponding ones from the 1980 White Paper, revalued at 1980 survey prices and adjusted, where there is firm information, to allow for the modifications described.

their current and capital expenditure. However, block grant will be a strong influence against excessive current spending and the new capital control scheme represents a significant increase in the discretion of local authorities to allocate their capital programmes in line with their local priorities whilst strengthening substantially central government's control over the aggregate of capital expenditure.'

National Income and Expenditure 1980

Gross domestic product fell by 2 per cent in real terms between 1979 and 1980. Within this total, manufacturing output fell by 10 per cent and direct investment by the manufacturing sector by 9 per cent. Real output in agriculture, forestry and fishing rose by 8 per cent and in mining and quarrying by 2 per cent. Current expenditure of central government on military defence increased by 27 per cent and on the National Health Service by 30 per cent. The proportion of personal income saved rose from its already high level.

This summary is based on revised figures of national income and expenditure for the year 1980 and fourth quarter, together with estimates of the sector current or appropriation accounts, fixed capital formation and the summary capital account, taken from a Central Statistical Office press notice of 31 March.

Gross Domestic Product

Britain's gross domestic product (GDP) at factor cost amounted to £191,000 million in 1980, which represented a fall in real terms of 2 per cent since 1979. Although real output in agriculture, forestry and fishing rose by 8 per cent and in mining and quarrying by 2 per cent, there was a fall in industrial production of 7 per cent and in manufacturing one of 10 per cent. There were also falls in construction, in gas, electricity and water, in transport and communication (despite a growth of 4 per cent in communication) and in the distributive trades.

Personal Income

Wages and salaries rose by 18 per cent between 1979 and 1980. Personal disposable income (that is, after deduction of taxes on income, national insurance contributions and net transfers abroad) increased in real terms by 2 per cent. The saving ratio (personal saving as a percentage of personal disposable income) rose from 14·1 per cent to 15·3 per cent.

Consumers' Expenditure

The volume of consumers' expenditure increased by 1 per cent between 1979 and 1980. Expenditure on 'other services' (for example, travel, insurance and expenditure abroad) rose by 6 per cent in real terms, largely because of an increase of 25 per cent in consumers' expenditure abroad. There were falls in most other areas, including housing, fuel and light, alcoholic drinks and tobacco.

Industrial and Commercial Companies

Between 1979 and 1980 industrial and commercial companies experienced virtually no change in their gross trading profits. However, because of a sharp fall in stock appreciation, profits after deducting stock appreciation rose by 7 per cent. Profits, net of stock appreciation, of companies engaged in North Sea oil and gas production grew by 48 per cent. This was largely attributable to an increase of 50 per cent in the average price of oil, as the volume of production and sales rose by only 2 per cent between the two years. Profits of other companies fell by 5 per cent after allowing for stock appreciation. Income from abroad fell by 17 per cent but that of oil companies fell by 25 per cent (see p 114).

Financial Companies and Institutions

Income of financial companies and institutions rose by 45 per cent between 1979 and 1980. Most of this was attributable to an increase of 40 per cent in the income of banks and building societies, which reflected increases in interest charges to customers and higher levels of bank advances. Income from abroad rose by 85 per cent mainly because of increases in earnings on eurocurrency transactions and interest on sterling claims by banks.

Public Corporations

The gross trading surplus of public corporations rose by 9 per cent between 1979 and 1980. Stock appreciation fell in this sector as well so that the net surplus increased by 16 per cent.

Central Government

Receipts of central government rose by 21 per cent between 1979 and 1980; taxes on income increased by 23 per cent and those on expenditure by 21 per cent. Current expenditure rose by 22 per cent, expenditure on military defence increasing by 27 per cent and that on the National Health Service by 30 per cent. The excess of current expenditure over income, before providing for depreciation and stock appreciation, increased from £1,672 million to £2,739 million.

Local Authorities

Current receipts of local authorities increased by 19 per cent between 1979 and 1980 and current expenditure by 21 per cent, leading to a fall in the current surplus, before providing for depreciation and stock appreciation, from £1,455 million to £1,324 million.

Summary Capital Account

The summary capital account showed a swing of over £4,000 million, from −£1,630 million to £2,737 million, in net investment abroad between 1979 and 1980. Following the removal of exchange controls in 1979 (see pp 338-9, 1979), there were large increases in outward portfolio investment (see p 114).

Fixed Investment

Between 1979 and 1980 fixed investment fell in real terms by 2 per cent. Investment by the private sector declined only marginally while that by public corporations rose slightly. However, investment by general government fell by 13 per cent. By type of asset, real fixed investment in vehicles, ships and aircraft, in dwellings (in both private and public sectors) and in other new buildings and works all fell; only plant and machinery recorded an increase, of 5 per cent. Investment also fell in most industry groups although there were modest rises in, for example, mining and quarrying (other than for petroleum and natural gas), and transport and communication. Direct investment by the manufacturing sector fell by 9 per cent during 1980 but expenditure by the service trades on assets for leasing continued to grow so that the volume of new equipment becoming available for use by manufacturers declined by rather less.

Overseas Trade and Balance of Payments in 1980

There was a substantial improvement in the current account of Britain's balance of payments in 1980 when there was a surplus of £2,700 million, compared with a deficit of £1,600 million in 1979. This was accounted for by a change in visible trade from a deficit in 1979 to a surplus in 1980, the first since 1971, as exports held up and the volume of imports declined. While the balance on trade in oil continued to improve, non-oil trade contributed most of the change.

Figures for Britain's balance of payments for 1980, together with those for the fourth quarter, were published on 5 March by the Central Statistical Office in a press notice. Most of the information in this article is taken from the press notice, except for some of the information on visible trade (including Tables 2 to 4) which has been obtained from the January 1981 edition of the *Monthly Review of External Trade Statistics* produced by the Departments of Industry and Trade. A summary of the balance of payments is given in Table 1.

Visible Trade

The surplus on visible trade of nearly £1,200 million in 1980 represented an improvement over 1979 of some £4,700 million; a comparatively small increase in the value of imports was outweighed by the rise in the value of exports. The improvement occurred despite the effects of a major dispute in the steel industry and distortion to trade in silver early in 1980, both of which had a considerable adverse impact on visible trade, possibly of around £1,000 million. Nevertheless, there was an improvement of some £2,500 million in the balance of trade in manufactured goods, and an improvement of over £1,000 million in the oil balance which resulted in a small surplus on the oil account.

Exports rose in value by 16 per cent to £47,297 million (on a balance of payments basis) in 1980 (see Table 2), mainly reflecting higher prices. However, the volume of exports rose by only 2 per cent, the main contribution coming from intermediate goods where the volume rose by 8·5 per cent. The value of imports rose by 5 per cent to £46,258 million (on a balance of payments basis) in 1980, but in terms of volume there was a fall of 5 per cent, reflecting the lower level of economic activity in Britain and related destocking. Imports of non-manufactures fell by 11 per cent by volume, but manufactured goods declined by only 1 per cent, although there were particularly large falls for passenger motor cars (19 per cent) and chemicals (14 per cent). An analysis of

Table 1

Balance of Payments

£ million

	1978	1979	1980
Visible trade balance	−1,573	−3,497	+1,177
Invisible trade balance	+2,280	+1,867	+1,560
of which *Services*	*+3,426*	*+3,510*	*+3,753*
Interest, profits and dividends	*+693*	*+663*	*−86*
Transfers	*−1,839*	*−2,306*	*−2,107*
Current balance	+707	−1,630	+2,737
Investment and other capital transactions	−3,518	+982	−1,490
Balancing item	+1,685	+2,358	−55
Balance for official financing	−1,126	+1,710	+1,192
Allocation of Special Drawing Rights	—	+195	+180
Official reserves*	+2,329	−1,059	−291
Other official financing	−1,203	−846	−1,081

*Drawings on (+)/additions to (−).

Table 2

Overseas Trade 1970-80

Balance of payments basis

	Exports f.o.b.* £ million	Imports f.o.b.* £ million	Visible balance £ million	Unit value indices (1975 = 100) Exports	Imports	Terms of trade†	Volume indices (1975 = 100) Exports	Imports	Relative volume index†
1970	8,151	8,183	–32	50·8	42·8	118·8	81·1	81·8	99·1
1971	9,043	8,853	+190	53·7	44·8	119·8	85·9	85·5	100·5
1972	9,423	10,184	–761	56·8	46·9	121·1	85·6	95·2	89·9
1973	11,937	14,523	–2,586	64·0	60·0	106·8	97·2	108·4	89·7
1974	16,395	21,745	–5,350	81·6	87·7	93·1	104·2	109·5	95·2
1975	19,330	22,663	–3,333	100·0	100·0	100·0	100·0	100·0	100·0
1976	25,193	29,120	–3,927	119·6	122·1	97·9	109·9	105·9	103·8
1977	31,734	34,013	–2,279	141·5	141·5	100·0	118·4	107·9	109·7
1978	35,071	36,617	–1,546	155·1	147·2	105·4	121·5	112·6	107·9
1979	40,689	44,093	–3,404	171·9	162·6	105·7	125·9	125·7	100·2
1980	47,297	46,258	+1,039	193·0	187·0	103·2	128·3	119·3	107·5

*Free on board; values include all costs accruing up to the time of placing the goods on board the exporting vessel or aircraft.

†Export index as a percentage of import index.

Table 3

Overseas Trade by Commodity

Overseas trade statistics basis

	Exports (f.o.b.) 1979 £ million	1980 £ million	1980 per cent	Imports (c.i.f.)* 1979 £ million	1980 £ million	1980 per cent
Non-manufactures	**8,514**	**11,178**	**22·5**	**16,264**	**16,987**	**32·8**
Food, beverages and tobacco	2,947	3,263	6·6	6,521	6,210	12·0
Basic materials	1,249	1,442	2·9	3,965	3,850	7·4
Fuels	4,319	6,471	13·0	5,779	6,927	13·3
Manufactured goods	**33,095**	**37,141**	**74·7**	**31,441**	**33,253**	**64·3**
Semi-manufactures	14,361	15,527	31·2	13,882	15,000	29·0
of which *Chemicals*	*4,914*	*5,303*	*10·7*	*3,404*	*3,164*	*6·1*
Textiles	*1,340*	*1,364*	*2·7*	*1,692*	*1,548*	*3·0*
Iron and steel	*1,278*	*985*	*2·0*	*1,216*	*1,460*	*2·8*
Non-ferrous metals	*1,140*	*1,763*	*3·6*	*1,565*	*2,519*	*4·9*
Metal manufactures	*1,193*	*1,316*	*2·7*	*774*	*871*	*1·7*
Other	*4,496*	*4,796*	*9·7*	*5,231*	*5,438*	*10·5*
Finished manufactures	18,734	21,614	43·5	17,560	18,253	35·3
of which *Machinery*	*9,807*	*11,529*	*23·2*	*7,435*	*7,785*	*15·1*
Road vehicles	*3,149*	*3,163*	*6·4*	*3,936*	*3,302*	*6·4*
Other transport equipment	*1,802*	*2,392*	*4·8*	*1,393*	*1,956*	*3·8*
Other manufactures	*3,976*	*4,530*	*9·1*	*4,796*	*5,210*	*10·1*
Miscellaneous	**1,194**	**1,396**	**2·8**	**762**	**1,477**	**2·9**
Total	**42,804**	**49,712**	**100**	**48,467**	**51,726**	**100**

*Cost of insurance and freight; values include the cost of insurance and freight from the country of consignment.

Note: Differences between totals and the sums of their component parts are due to rounding.

trade by commodity, on an overseas trade statistics basis, is given in Table 3.

Britain's overseas trade by area, also on an overseas trade statistics basis, is shown in Table 4. About two-fifths of Britain's trade was with other member countries of the European Community (for brief coverage of British trade within the Community, see p 91). The Federal Republic of Germany was the largest market, taking 10·4 per cent of Britain's exports (valued at £5,147 million), followed by the United States (9·4 per cent), the Netherlands (7·8 per cent) and France

Table 4

Overseas Trade by Area

Overseas trade statistics basis

	Exports (f.o.b.)			Imports (c.i.f.)		
	1979 £ million	1980 £ million	1980 per cent	1979 £ million	1980 £ million	1980 per cent
Developed countries	32,208	37,227	75	38,141	39,921	77
of which *European Community**	*17,885*	*20,915*	*42*	*20,896*	*20,864*	*40*
Rest of Western Europe	*7,015*	*8,172*	*16*	*8,110*	*8,179*	*16*
North America	*4,835*	*5,464*	*11*	*6,221*	*7,488*	*14*
Other	*2,474*	*2,677*	*5*	*2,914*	*3,390*	*7*
Developing countries	9,260	11,042	22	8,698	10,255	20
of which *Oil-exporting countries†*	*3,793*	*4,962*	*10*	*3,375*	*4,320*	*8*
Other	*5,467*	*6,080*	*12*	*5,323*	*5,936*	*11*
Centrally planned economies‡	1,191	1,315	3	1,536	1,441	3
Total	42,804	49,712	100	48,467	51,726	100

*Excludes Greece.

†Algeria, Bahrain, Brunei, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad and Tobago, United Arab Emirates and Venezuela.

‡Soviet Union, Poland, German Democratic Republic, Hungary, Czechoslovakia, Albania, Bulgaria, Romania, People's Republic of China, North Korea, Vietnam and Mongolia.

Note: Low value consignments are included in total imports and exports, but not in the allocation by area. Accordingly, the sums of the component parts of the table do not equal the total figures given.

Table 5

Invisible Trade

£ million

	Credits			Debits			Balance
	1978	1979	1980	1978	1979	1980	1980
Services	12,316	13,950	15,290	8,890	10,440	11,537	+3,753
Private sector and public corporations	11,998	13,605	14,897	7,874	9,299	10,346	+4,551
of which *Sea transport*	*3,143*	*3,751*	*3,854*	*3,170*	*3,688*	*3,704*	*+150*
Civil aviation	*1,455*	*1,755*	*2,233*	*1,159*	*1,468*	*1,781*	*+452*
Travel	*2,507*	*2,797*	*2,991*	*1,549*	*2,109*	*2,724*	*+267*
Other	*4,893*	*5,302*	*5,819*	*1,996*	*2,034*	*2,137*	*+3,682*
General government	318	345	393	1,016	1,141	1,191	−798
Interest, profits and dividends	5,188	7,589	8,014	4,495	6,926	8,100	−86
Private sector and public corporations	4,497	6,773	7,079	3,230	5,544	6,531	+548
General government	691	816	935	1,265	1,382	1,569	−634
Transfers	1,154	1,293	1,719	2,993	3,599	3,826	−2,107
Private	712	739	756	848	992	1,083	−327
General government	442	554	963	2,145	2,607	2,743	−1,780

(7·4 per cent). There was a sharp increase in exports to the oil-exporting countries, a large part of which represented a recovery in deliveries to Nigeria from a low level in 1979. The United States regained its position as the largest single supplier of Britain's imports, supplying 11·7 per cent (valued at £6,040 million), followed by the Federal Republic of Germany (11·1 per cent), France (7·6 per cent) and the Netherlands (6·7 per cent).

Invisible Trade

The surplus on invisible trade is provisionally estimated at about £1,600 million in 1980, slightly lower than in 1979. Credits totalled £25,023 million and debits £23,463 million. Table 5 gives a breakdown of credits and debits for the main components.

Services

The value of exports and imports of services both increased by around 10 per cent in 1980; credits totalled £15,290 million and debits £11,537 million, representing a positive balance of £3,753 million. However, the volume of imports rose by 4 per cent, while the volume of exports fell by 3·5 per cent. The most important influence on volume changes was the movement in travel

receipts and expenditure; the surplus on travel fell from £688 million in 1979 to £267 million in 1980. The number of visits to Britain in 1980 was virtually the same as in the previous year and the 7 per cent increase in credits, to £2,991 million, was the result of higher average expenditure per visit. Debits (£2,724 million) showed a large increase, with 13 per cent more visits overseas and an increase of 16 per cent in average expenditure per visit. Surpluses on sea transport (£150 million), civil aviation (£452 million), and financial and other services (£3,682 million) were all higher than in 1979. The deficit on general government services, £798 million, was about the same as in 1979.

Interest, Profits and Dividends

There was a marked drop in net earnings of interest, profits and dividends in 1980, leading to a deficit of £86 million, as against a surplus of £663 million in 1979. Total debits rose strongly and, although there was some increase in credits, earnings denominated in foreign currencies were held down by the strength of sterling; overseas earnings of oil companies fell by about 25 per cent in 1980. Although oil sales continued to benefit from oil price rises early in the year, downstream activities were adversely affected for much of the year by reduced world demand as a result of the industrial recession. In contrast, overseas oil companies operating in Britain increased their earnings by some 40 per cent, with lower earnings from onshore activities being more than offset by higher earnings from offshore operations. Non-oil companies' earnings from branches and subsidiaries overseas rose slightly in 1980 despite the signs of a slowing down of growth in other industrialised countries and the appreciation of sterling, whereas overseas-owned companies' profits earned in Britain fell substantially, reflecting the lower level of industrial production.

Other credits improved in 1980. Earnings by British banks on sterling lending rose strongly, interest on loans (excluding export credit) having doubled compared with 1979. Portfolio investment earnings also increased, gradually reflecting the effect of higher investment overseas following the abolition of exchange controls in 1979 (see pp 192 and 338, 1979).

Interest earned by overseas residents on British government stocks and deposits with banks continued to rise; sterling interest rates were attractive during most of 1980, resulting in further large inflows of funds to Britain. However, the continuing programme of foreign currency debt repayment, including early repayments, by the public sector, coupled with the strong sterling exchange rate in 1980, reduced interest payments on such borrowing.

Transfers

The deficit on transfers of £2,107 million was made up of a private sector deficit of £327 million and a government deficit of £1,780 million. Government receipts from transfers, all from the European Community, rose by 74 per cent to £963 million, with greater receipts under the Community's agricultural policies, higher receipts of grants from the Social Fund and the Regional Development Fund, and the first instalment of budget refunds negotiated in May 1980 (see pp 182-3 and 314-15, 1980). Contributions to the European Community rose by only 10 per cent to £1,782 million. The other main components of government debits were contributions and subscriptions to other international organisations (£282 million) and bilateral aid (£491 million).

Investment and Other Capital Transactions

Identified capital transactions resulted in a net outflow of about £1,500 million, compared with a net inflow of £1,000 million in 1979, largely matching the turnround on the current account. Sterling lending to overseas residents by British banks rose strongly throughout 1980 when there was a net outflow of £2,500 million, as against a net inflow of £300 million in 1979, the change being mainly attributable to the abolition of exchange controls. Although net inflows of £2,900 million to sterling deposits with British banks and of £1,500 million to British government stocks were a little higher in 1980, they were at a much lower level in the fourth quarter of the year as interest rates began to fall. Foreign currency borrowing and lending by British banks resulted in a net inflow of £2,000 million in 1980, as opposed to £1,600 million in 1979.

Net private investment overseas was slightly higher in 1980 than in 1979. Following the abolition of exchange controls, portfolio investment in overseas securities, especially by financial institutions, amounted to some £2,800 million, more than three times the level of the previous year. Direct investment overseas by non-oil companies increased slightly in 1980, partly reflecting major purchases of companies in the United States in the first half of the year. Just over half of the direct investment was in the form of reinvested profits. Investment overseas in 1980 by oil companies was less than half the 1979 total in sterling terms, partly because of their drop in earnings, but also reflecting the strength of sterling.

Overseas investment in the private sector in Britain fell slightly in 1980. Direct investment by non-oil companies increased a little despite a sharp fall in reinvested profits. However, there was a fall in investment by overseas-owned oil companies, a sharp reduction in investment in onshore operations more than offsetting a substantial rise in investment in activities on the United Kingdom Continental Shelf.

Official Financing

Repayments made during 1980 included the repayment ahead of schedule of a $1,500 million eurocurrency loan arranged for the Government by a banking syndicate in 1977, while there were net repayments of £312 million of borrowing by public bodies under the exchange cover scheme and of £140 million under the International Monetary Fund's oil facilities. The official reserves increased by £291 million over the year; in the fourth quarter of 1980 they were valued at £11,487 million.

Small Firms

A growing number of schemes of assistance to small firms have been provided over the last few years from both public and private sector sources. The Government in particular has emphasised the importance it attaches to the contribution that can be made by small firms to economic growth, through the scope they offer for enterprise, the prospects for new employment they hold, and their ability to identify new technology and innovations of all kinds.

Several schemes of assistance were announced in the Budget on 10 March. They include a Government-backed loan guarantee scheme for bank loans of up to £75,000 (see p 103). This is aimed at encouraging banks to back more marginal but potentially viable propositions. By 10 April nearly 3,000 inquiries had been received by the Department of Industry about the scheme, which is due to commence operating in mid-1981. The Budget also introduced a scheme unique to Britain among the major industrial countries for a personal annual tax allowance of up to £10,000 for investments in new business start-ups (see p 103). A venture capital scheme introduced in the 1980 Budget providing for income tax relief to individuals on losses sustained on equity investments in unquoted trading companies (see p 120, 1980), was extended in the 1981 Budget to cover investments by companies as well (see p 103). A number of large firms (such as Shell UK, ICI, Pilkington and Unilever) have set up schemes to provide investment finance for smaller businesses in recent years, and the Budget measure is expected to encourage this development. Clearing banks have also begun to develop investment loan schemes for new small businesses.

Enterprise Zones and Small Factory Units

Provision was made in the 1980 Budget for a new system of enterprise zones, expected to be of especial interest to small businesses (see pp 120-1, 1980). A number of zones have now been designated (see p 278, 1980, and p 43). The same Budget introduced capital allowances for small industrial buildings, resulting in a rapid growth of private finance for small factory units (see pp 120 and 189, 1980).

Advisory Services

On 11 March the Department of Industry announced an additional £1 million for 1981-82 for improving and extending the Department's Small Firms Service. The Service utilises the skills of experienced businessmen working on contract together with a departmental information service, to provide counselling and information for those starting or expanding their businesses. Demand for the Service is growing rapidly; it is expected to handle 100,000 information inquiries and 10,000 counselling cases in 1981-82. In addition, steps are to be taken to improve co-operation between the Small Firms Service and other agencies (such as Chambers of Commerce, local authorities and the Council for Small Industries in Rural Areas) in order to avoid duplication, and a link is to be established between the Department of Industry and the Manpower Services Commission to facilitate appraisals for the new Community Enterprise Programme (see p 366, 1980).

Information and counselling are also provided to small businesses, particularly those starting up, by private sector agencies. The London Enterprise Agency, set up in April 1979, provides smaller businesses with the managerial and technical expertise of firms such as Shell UK, BP, Marks and Spencer and IBM, under the aegis of the London Chamber of Commerce. In November 1980 the Agency announced facilities and financial support for small companies seeking to enter export markets. Assistance with market research, trade mission and exhibition facilities are being provided. Advisory services similar to those of the London Enterprise Agency have been set up by large firms in Birmingham, St Helens and Leeds.

Venture Capital Schemes

The National Enterprise Board (NEB) has recently established two venture capital companies to assist small businesses. The Anglo-American Venture Fund, set up in November 1980, will foster new high-technology ventures (see pp 370-1, 1980). Oakwood Loan Finance, formed by the NEB in March 1981, will provide 'growth loans' to small companies of up to £50,000 over a five-year period at favourable rates of interest. In September 1980 the National Research Development Corporation established a fund with initial resources of £2 million to increase its investment in innovative small businesses and businesses starting up (see p 295, 1980). Finance may be provided in various forms including equity shares, preference shares, and loans.

Exchange Risk Cover and Export Credit

A new exchange risk agreement enabling loans from £15,000 to £50,000 from the European Investment Bank (EIB) to be made at attractive rates of interest to small firms in the assisted areas and Northern Ireland was signed between the Department of Industry and Finance for Industry in February. The agreement will be operated through the Industrial and Commercial Finance Corporation, a body established in 1945 by the Bank of England and the clearing banks specifically to assist smaller firms. A streamlined project appraisal procedure will involve small firms in a minimum of paperwork. The scheme is complementary to an existing one under which the Government provides exchange risk on EIB loans to small and medium-sized firms from £15,000 up to £2·5 million.

A number of clearing banks have begun to offer schemes of export credit finance to smaller businesses not covered by the Export Credits Guarantee Department, the central government export credit agency. The Midland Bank, which set up its Small Exporters Scheme in January 1979, was the first. The scheme does not affect existing loan facilities or overdrafts and involves a minimum of paperwork. The most recent scheme was announced by the Bank of Scotland in December 1980. Cover is provided up to a maximum of

£15,000 for firms with an export turnover under £250,000 a year.

Company Law

The Government has also been reviewing company law with a view to assisting small firms, with particular attention to topics such as the purchase by companies of their own shares (see pp 220-1, 1980), the redeeming of shares out of capital by private companies, and new forms of incorporation for small businesses (see p 76).

Biotechnology

The best prospect of building a vigorous, efficient industry in biotechnology – the industrial application of biological organisms, systems or processes – in Britain is by developing it within the private sector, according to the White Paper[1] describing the Government's response to the joint working party report on biotechnology (see pp 135-6, 1980).

WHITE PAPER

The White Paper, published on 4 March, welcomes the report as an important contribution to policy thinking. The Government agrees that biotechnology will be of key importance to the world economy in the next century, and of rapidly growing importance before then; and recognises the value of production methods for food, medical and other industrial goods that reduce demands for fossil energy, and the possibilities for completely new products and technologies, especially in medicine and agriculture. The White Paper points out that biotechnology is not new to British industry and that several important companies have long been aware of the opportunities offered by it and have readily exploited them (see below under 'Examples'). The Government's financial and economic policies are designed to provide an environment in which private initiative and enterprise will be encouraged to take advantage of the opportunities as they emerge; this is the context in which it has considered the report and developed its policy on biotechnology. Private sector companies are best able to make the necessary judgments about products for the market and processes for making them and to assess market prospects with imagination and a realistic appreciation of the risks. The Government therefore welcomes the steps being taken whereby financial institutions are beginning to make more long-term investments in technological ventures.

The Government recognises, however, that it needs to provide encouragement at this stage. It welcomes the work done by the National Research Development Corporation and the initiative that has already been taken by the National Enterprise Board to form partnerships with the private sector in order to enhance British competitiveness; and intends to bring about better co-ordination between the activities of these two organisations and between government departments in relation to biotechnology. It also recognises its role in education and training, in some aspects of research and development, and in safety and health, and agrees with the report that collaboration between universities, the research councils and industry in biotechnology should be fostered.

The Government wishes to encourage European Community and other international collaboration between industrial firms and between governments and academic institutions for projects beyond the financial and technical resources of any single participant, or where a co-operative approach, even on smaller projects, produces results of benefit to all.

At this stage, the White Paper concludes, 'the need is to participate fully enough in fundamental and applied scientific research to understand all the possibilities, and to create the climate in which selective development can be undertaken by those best able to perceive needs and assess the possibilities and risks'.

Examples

The following paragraph, reproduced from the White Paper, gives a few of the many examples of British industry's involvement in biotechnology.

Glaxo has been applying biotechnology to medicine, particularly using fermentation methods, ever since it introduced large-scale manufacture of penicillin to Britain in 1946. In 1957, Beecham research laboratories first isolated the most basic form of penicillin from fermentation broths. From this basic form was developed a wide range of so-called semi-synthetic penicillins of great value in medicine. The Wellcome Foundation has been working since 1974 on manufacturing interferon by a process based on human cells in culture. Wellcome has established a plant which is producing material very much purer than other clinically used interferons and is believed to be the first industrial-scale plant of its type in the world. ICI is exploiting the latest recombinant DNA (deoxyribonucleic acid) techniques to modify the micro-organism which it produces for animal feed so that the production process is more efficient. Rank Hovis McDougall has developed a microbiological source of protein for human consumption derived from carbohydrates. Tate and Lyle has long been working on the conversion of carbohydrate feedstocks into chemicals using fermentation and enzyme technology as well as conventional chemical means. Since the last century, British firms have also been in the forefront of engineering developments in the biological processing of sewage and waste, including the isolation of useful products such as methane.

[1] *Biotechnology*. Cmnd 8177. HMSO, £1·40. ISBN 0 10 181770 3.

Shorter Notes

NATIONAL MOBILITY SCHEME

A National Mobility Scheme, designed to help tenants of local authorities, new towns and housing associations in England and Wales who need

to move to another area for employment or social reasons, came into effect on 1 April. The scheme, which is sponsored by the Department of the Environment and the principal bodies representing public housing authorities, is open to tenants and people high on the waiting lists of participating authorities who need to move to a different area for employment or social reasons; other people with a pressing need to move will also be able to apply. A National Mobility Office has been set up to operate the scheme, the costs of which will be met initially by the Department of the Environment.

CABLE AND WIRELESS LTD

The Government's decision to offer for sale just under 50 per cent of its shares in Cable and Wireless Ltd (a publicly owned company providing telecommunications activities in some 30 countries overseas on a franchise basis on behalf of their governments) was announced by the Minister for Industry and Information Technology, Mr Kenneth Baker, in the House of Commons on 9 March (*Hansard*, Vol 1,000, No 63, col 619). Mr Baker said that a clause broadening the Government's powers to dispose of its shares in the company had been included in the British Telecommunications Bill (see p 15) and the Government had been considering, in close consultation with the company, whether and how shares might be sold. Before reaching its final decision, all the governments of the countries in which the company operated had been consulted and had raised no objections. Mr Baker said that the new ownership arrangements would broadly follow the precedent set in the case of British Petroleum, leaving the Government with a major shareholding capable of safeguarding the interests of overseas governments. Cable and Wireless already enjoyed a large degree of commercial freedom and the Government would refrain from using its rights as a shareholder to intervene in the company's commercial decisions. The proposed sale of shares would 'create a partnership between the public and private sectors', and 'provide the commercial flexibility and access to the financial markets necessary to exploit the growth and opportunities in this rapidly expanding telecommunications sector'.

RESEARCH INTO CANCER TREATMENT

A powerful cyclotron for clinical investigations on the treatment of cancers by irradiation with high-energy neutrons is to be installed and a chair of radiation oncology at Liverpool University established, following agreement on the necessary funding by the Medical Research Council (MRC) and four cancer charities: the Imperial Cancer Research Fund, the Cancer Research Campaign, and the Liverpool-based Cancer and Polio Research Fund and Clatterbridge Cancer Research Trust. The cyclotron will provide the most penetrating and most precisely deployable beam of neutron radiation available in any hospital in the world.

Three of the charities have agreed to provide between them a capital sum totalling over £4 million for the project – £3 million of which is to be found by the Imperial Cancer Research Fund in the form of the gift of the cyclotron and a grant towards the construction of a building in which to house it and its associated services; while the MRC will fund the staffing and running of the facility, which will be installed at the Mersey Regional Centre for Radiotherapy and Oncology, Clatterbridge Hospital, Merseyside. The fourth charity – the Cancer Research Campaign – is making an endowment to Liverpool University to establish a department of radiation oncology. Work is to begin immediately on the new facility, which is expected to become operational by the autumn of 1984.

A cyclotron is a machine that can accelerate certain types of sub-atomic particle to extremely high velocities. When such accelerated particles are made to collide with a metal such as beryllium under suitable conditions, neutrons (particles with no electrical charge) are emitted as a beam that can be aimed at a patient's tumour.[1] Observations initially made in experimental biological systems suggested that neutrons had advantages over the radiations conventionally used for cancer treatment, such as X-rays and gamma rays. Clinical studies to assess directly their value as anti-cancer agents have been going on since 1966 at the MRC's Cyclotron Unit at Hammersmith Hospital, London, and since 1977 at the Council's second cyclotron facility at the Western General Hospital, Edinburgh. The results of these studies in patients with head and neck cancers are sufficiently encouraging to have persuaded the MRC that trials with a more powerful cyclotron should now be carried out. With the new cyclotron, which will be equipped with a device (an 'isocentric head') that enables the neutron beam to be steered and properly guided to the patient's tumour, it will be possible to study the efficacy of neutron therapy in the treatment of deep tumours such as those of the gastro-intestinal tract.

MICROELECTRONICS IN EDUCATION

The Government has announced a scheme which aims to put at least one microcomputer into every secondary school in Britain by the end of 1982.

Launching the scheme at a press conference in London on 6 April, the Prime Minister, Mrs Margaret Thatcher, said that under the 'Micros in Schools' scheme, money would be made available to local education authorities and schools (including independent schools) on a pound for pound basis (that is, to match funds provided locally) to buy either the Research Machines 380Z or the BBC Acorn microcomputers. The scheme, which

[1]The neutron was discovered in 1932 by Professor Sir James Chadwick, for many years Professor of Physics at Liverpool University, who himself suggested that neutrons might be used for radiotherapy.

will begin on 1 June 1981 and be administered by the Department of Industry, complements the Government's microelectronics development programme for schools and colleges announced in March 1980 (see p 135, 1980).[1] Mrs Thatcher said that she saw the scheme as part of the wider attention the Government was giving to information technology (see p 329, 1980) 'in order to increase in Britain an awareness and appreciation of the new businesses, new products, new services and new jobs which information technology offers'. Those now at school would need to adapt to each new technological advance if Britain were to remain an industrial power, and familiarity with keyboards and television screens would help them to take in their stride the new technologies on the shop floor, in the office and in the home.

Initially, priority will be given in the allocation of funds to those secondary schools that do not already possess a microcomputer. The Government hopes that the scheme will be extended to other sectors of the education system and details will be announced in due course. To ensure the effective use of microcomputers provided under the scheme the Government will look for evidence from the local education authority that at least two teachers from every school preparing to take advantage of the scheme have undertaken, or are about to undertake, a period of suitable in-service training.

[1]On 6 April the Department of Education and Science published an outline paper on the programme, *Microelectronics Education Programme: the Strategy* (available free from the Publications Despatch Centre, Department of Education and Science, Honeypot Lane, Canons Park, Stanmore, Middlesex HA7 1AZ).

SOCIAL AND CULTURAL AFFAIRS

Census of Population 1981

The 1981 Population Census to collect information about each person and provide a range of statistical information on people, families, households, housing and workplaces, was held on Sunday 5 April. The census is the most important statistical operation regularly undertaken in Britain and will form part of the round of international censuses being held between 1980 and 1982 under the auspices of the United Nations.

The Secretary of State for Social Services, Mr Patrick Jenkin, speaking at a press conference on 19 March to launch the census, described it as 'a unique, reliable, cheap and efficient source of essential statistics', and 'the shortest and simplest census for 50 years'; the design of the form had been streamlined so that most of the questions could be answered by putting ticks in boxes.

Mr Jenkin reaffirmed the Government's determination to protect the confidentiality of the information provided about individual people and households. He welcomed the report of the British Computer Society, published that day as a White Paper,[1] which stated that the computing arrangements had been planned with care, that particular emphasis had been placed on designing the system to make breaches of confidentiality extremely unlikely and that the standards of physical security had been set at a high level. All personal information is treated in strict confidence and, after processing of the census data, the forms will be locked away for 100 years; only after that time will they be made available for public inspection.

Background

The first census was taken in 1801, since when there has been a census in the first year of every decade with the sole exception of the war year 1941. Early censuses were somewhat rudimentary, but the 1841 census, the first under the Registrar General, was taken by specially appointed enumerators; a census schedule was completed for each householder, who was required to enter on the schedule details about everyone sleeping in the house on census night. This procedure has been followed since that time.

[1] *1981 Census of Population: Confidentiality and Computing.* Cmnd 8201. HMSO, £2·10. ISBN 0 10 182010 0.

Each decade questions on topics of new significance are added, with others no longer essential being omitted, and the results enable significant long-term changes in national life to be monitored.

Administrative Arrangements

Census takers, known as enumerators, were appointed to deliver census forms to all addresses in a specified area for completion by households and then to collect them after census day, collection being completed by 9 April. The country was divided into enumeration districts (each consisting of about 200 households in suburban areas, although numbers were fewer in rural areas and city centres) which will eventually form the basic units of output for the census results. The enumeration process required a large temporary labour force consisting in England and Wales alone of some 110 supervisors, 2,200 census officers, 6,600 assistant census officers and more than 100,000 enumerators (many of whom were recruited from the unemployed). They worked under the direction of the Office of Population Censuses and Surveys (the office of the Registrar General) on behalf of the Secretary of State for Social Services; in Scotland and Northern Ireland they worked under the direction of the appropriate Registrar General.

Enumerators provided help where needed, including help to people with difficulty in understanding English; in Great Britain interpreters were also available. In Wales the form was available in English or Welsh, and in England and Wales translations of the census questions were available in Bengali, Cantonese, Greek, Gujarati, Hindi, Italian, Punjabi, Turkish and Urdu.

Among the subjects on which information was required were name, sex, date and country of birth, marital status, current address and address one year ago, occupation, journey to work, professional and other qualifications, accommodation (including number of rooms, tenure and basic amenities), and access to a car or van. Participation in the census was a legal requirement under the Census Act 1920. Anyone failing to fill in a form, or making a false return or not completing a form, could be taken to court and fined up to £50.

Publication of Results

Results are expected to be available earlier than for the 1971 census. Preliminary counts of popu-

lation will be published within a few weeks. The first detailed results for some individual districts will be available before the end of 1981 and tables for the country as a whole will be produced from about mid-1982, with all the main results being available by the summer of 1984.

Social Security Benefits

When social security benefits are raised in November, taxed long-term benefits such as retirement and widows' pensions will be protected against the increase in prices since the last uprating in November 1980. Certain other benefits, for example child benefit and mobility allowance, will be increased by more than the expected rise in prices.

Details of the new benefit rates and other changes were announced in the House of Commons on 11 March by the Secretary of State for Social Services, Mr Patrick Jenkin (*Hansard*, Vol 1,000, No 65, cols 891-903). The measures proposed, he said, would bring help to the least privileged members of the community and were evidence of the Government's determination to protect the most vulnerable in difficult times.

The main points from Mr Jenkin's statement are described below. Details of current and proposed benefits rates – the latter are subject to parliamentary approval – are also given.

STATEMENT IN PARLIAMENT

Increased Rates

The weekly rate of basic retirement pension for a single person will go up in November from £27·15 to £29·60, and the rate for a married couple from £43·45 to £47·35. In calculating the new rates of benefit, account has been taken of the forecast 10 per cent increase in the retail price index since the last uprating and also of the 1 per cent adjustment provided for by the Social Security Bill at present before Parliament. [The White Paper *The Government's Expenditure Plans 1981-82 to 1983-84* (see p 104) shows that the increases made in social security benefits in November 1980 were based on an estimate of price rises that was 1 per cent too high; the Social Security Bill would correct this over-provision.] Other long-term benefits that will be similarly increased include widows' pensions, industrial disablement pensions, non-contributory invalidity pension, and attendance allowance. There will be an increase of nearly 14 per cent in mobility allowance (for physically disabled people unable or almost unable to walk).

The standard rate of sickness benefit and unemployment benefit will rise from £20·65 to £22·50 for a single person, and from £33·40 to £36·40 for a married couple. The increases in invalidity pension will be somewhat higher; for a single person the pension will rise from £26 to £28·35, and for a married couple from £41·60 to £45·35 a week.

Supplementary benefits will all be increased on the same basis as national insurance benefits. War pensions will rise similarly and a Christmas bonus of £10 (for pensioners) will be paid on the same basis as in 1980.

Child benefit paid in respect of every child regardless of parents' circumstances – the main social security benefit for children – is to be increased by 50p to £5·25 a week for each child. This is a 10·5 per cent rise, a little more than the expected rise in prices. One-parent benefit – the additional benefit paid to lone parents – will be increased from £3 to £3·30 a week.

The prescribed levels of income for family income supplements [for lower-paid workers with children] will rise by £7, to £74 a week for one-child families. The additional amount for each further child will be raised to £8 a week.

Invalidity Benefits

Most of the long-term contributory benefits mentioned above are taxable. In contrast, invalidity benefit has not been treated as taxable income, and, despite plans to make it so from April 1982 (see p 137, 1980), it will not be possible in the next tax year. The Government proposes to restore the value of the invalidity allowance in November. These allowances are the sums paid on top of the invalidity pension and depend on the claimant's age when incapacity begins. Mr Jenkin said that the Government's pledge to restore the value of invalidity pension itself when it came into taxation stood unqualified.

Help with Fuel Costs

In 1980-81 annual spending on fuel assistance was raised to more than £200 million, which was concentrated on giving substantial help to those in greatest need. The basic rates of heating addition and the central heating addition will rise from £1·40 a week to £1·65 – that is, to £85·80 a year. About 1·5 million people will benefit from the increase, including all supplementary pension householders over the age of 70, and supplementary benefit householders with children under five years of age. The higher rate heating addition will rise from £3·40 to £4·05. More than 400,000 people will receive this increase, including the most severely disabled, who receive it automatically. The increases in heating additions will raise total spending on fuel assistance to more than £250 million in a full year and will benefit more than 2·25 million people.

Social Security Expenditure

The cost of the social security programme is about £27,000 million, and represents about £1,000 per year for every worker in Britain. The cost of the uprating of benefits will be about £2,000 million in a full year. About three-quarters of this will be met from the national insurance fund and the Government will review contribution rates as usual in the autumn. Any necessary changes will take effect from April 1982.

BENEFIT RATES

Main Contributory and Non-Contributory Benefits

The payment of some benefits – such as retirement, widows' and invalidity pensions and sickness and unemployment benefit – depends upon contributions paid under the national insurance scheme. Other benefits do not depend upon contributions: the main one is child benefit but there are also a number providing special help for disabled people, for example.

	Existing weekly rate £	*Proposed weekly rate* £
Child benefit		
Each child	4·75	5·25
One-parent benefit		
First or only child of certain lone people	3·00	3·30
Standard rate of retirement, and widows' pensions and widowed mothers' allowance		
Single person	27·15	29·60
Wife or other adult dependant	16·30	17·75
Standard rate of invalidity pension		
Single person	26·00	28·35
Wife or other adult dependant	15·60	17·00
Invalidity allowance payable with retirement and invalidity pension		
Higher rate	5·70 5·45	6·20
Middle rate	3·60 3·45	4·00
Lower rate	1·80 1·75	2·00
Standard rate of unemployment and sickness benefits		
Beneficiary under pension age		
Single person	20·65	22·50
Wife or other adult dependant	12·75	13·90
Beneficiary over pension age		
Single person	26·00	28·35
Wife or other adult dependant	15·60	17·00
Widows' allowance (first 26 weeks of widowhood)	38·00	41·40
Maternity allowance	20·65	
Attendance allowance		
Higher rate	21·65	23·65
Lower rate	14·45	15·75
Retirement pension for people over 80[1]		
Higher rate	16·30	17·75
Lower rate	9·80	10·65
Non-contributory invalidity pension, invalid care allowance	16·30	17·75
Increase of non-contributory invalidity pension and invalid care allowance for a wife or other adult dependant	9·80	10·65
Mobility allowance	14·50	16·50
Guardians' allowance, child's special allowance	7·50	7·70
Rate of benefit for children of widows, invalidity, non-contributory invalidity and retirement pensioners, invalid care beneficiaries; unemployment and sickness beneficiaries when claimant is over pension age	7·50	7·70
Rate of benefit for children of all other beneficiaries	1·25	0·80

[1]An age addition of 25p is payable to retirement pensioners who are aged 80 or over.

Industrial Injuries Benefits

Industrial injuries benefits are payable to employed people who suffer injuries caused by an accident at work or from a prescribed industrial disease contracted there. Injury benefit is payable for up to 26 weeks and may be followed by disablement benefit.

	Existing weekly rate £	*Proposed weekly rate* £
Injury benefit[1]	23·40	25·25
Disablement benefit (100 per cent assessment)	44·30	48·30
Unemployability supplement[2]	26·00	28·35
Special hardship allowance (maximum)	17·70	19·32
Constant attendance allowance (normal maximum)	17·70	19·40
Industrial death benefit		
Widows' pension (first 26 weeks of widowhood)	38·00	41·40
Widows' pension (higher rate)	27·70	30·15
Widows' pension (lower rate)	8·15	8·88

Main Supplementary Benefits

Supplementary benefits are payable to people who are not in full-time work and whose financial resources fall below a certain level. The amounts shown below are the weekly levels laid down for the requirements of married couples, single householders and others. Benefit awarded is the difference between resources and these requirements. The long-term rates apply to retirement pensioners and to those people below pensionable age who have received supplementary benefit continuously for two years, provided that the award has not been subject to the condition of registering for employment.

	Existing weekly rate £	*Proposed weekly rate* £
Ordinary rate		
Husband and wife	34·60	37·75
Person living alone	21·30	23·25
Any other person aged:		
18 and over	17·05	18·60
16–17 years	13·10	14·30
11–15 years	10·90	11·90
Under 11 years	7·30	7·90
Long-term rate		
Husband and wife	43·45	47·35

[1]Increases for adult dependants and children will be the same as those payable with unemployment and sickness benefits, where claimant is under pension age.

[2]Invalidity allowances and increases for adult dependants and children will be the same as those payable with invalidity pensions.

	Existing weekly rate £	Proposed weekly rate £
Person living alone	27·15	29·60
Any other person aged:		
18 and over	21·70	23·65
16–17 years	16·65	18·15
Non-householder housing additions	2·15	2·25
Heating additions		
Lower rate	1·40	1·65
Higher rate	3·40	4·05
Dietary additions		
Lower rate	1·20	1·30
Higher rate	2·80	3·05
Blindness addition	1·25	No change
Addition for claimant or dependant over age 80	0·25	No change

Family Income Supplement

Family income supplement is a benefit for families with small incomes where the head of the household is in full-time work and where there is at least one dependent child. It is payable when the gross weekly income of a family falls below a prescribed amount. The amount varies according to the number of children in the family, but is the same for single parents as for two-parent families. 'Full-time work' means, for the purpose of this benefit, work of at least 30 hours a week for two-parent families or 24 hours a week for one-parent families.

	Existing weekly rate £	Proposed weekly rate £
Family income supplement:		
Prescribed amount for family with one child (income below which FIS is payable)	67·00	74·00
Increase in prescribed amount for each additional child	7·00	8·00
Maximum weekly amount for a one-child family	17·00	18·50
Increase in maximum amount for each additional child	1·50	No change

Main War Pensions

War pensions are payable to people disabled as a result of service in the armed forces, to people disabled from injuries received in the Merchant Navy or Civil Defence during wartime, or to civilians injured by enemy action.

	Existing weekly rate £	Proposed weekly rate £
Disablement benefits		
Disablement pension for private at 100 per cent rate	44·30	48·30
Unemployability allowances		
Personal allowance	28·80	31·40
Wife or other adult dependant	16·30	17·75
Child	7·50	7·70
Comforts allowance		
Higher rate	7·70	8·40
Lower rate	3·85	4·20
Allowance for lower standard of occupation (maximum)	17·70	19·32
Constant attendance allowance		
Special maximum	35·40	38·80
Normal maximum	17·70	19·40
Age allowance with assessments of:		
40 and 50 per cent	3·10	3·35
Over 50 and not exceeding 70 per cent	4·80	5·25
Over 70 and not exceeding 90 per cent	6·85	7·50
Over 90 per cent	9·60	10·50
Exceptionally severe disablement allowance	17·70	19·40
Severe disablement occupational allowance	8·85	9·70
Clothing allowance (per year)		
Higher rate	59·00	65·00
Lower rate	37·00	41·00
Death benefits		
Widows' pension (private's widow)	35·30	38·45
Childless widow under 40	8·15	8·88
Rent allowance	13·40	14·65
Age allowance for elderly widows:		
Ages 65–69	3·45	3·75
Aged 70 and over	6·90	7·50
Adult orphans	27·15	29·60

The Elderly

***Growing Older*, a White Paper on elderly people, was published on 3 March.[1] It is the outcome of a comprehensive review of a wide range of issues affecting elderly people throughout the United Kingdom, and includes material on incomes, retirement, living accommodation, care and support in the community and institutional care.**

The White Paper emphasises that the main aim of the Government's policies is to enable elderly people to live independent lives in their own homes wherever possible. The paper calls for recognition that retirement can be a time of opportunity, and highlights the importance of advance preparation. It also draws attention to the changing structure of the population and particularly to the increasing numbers of very elderly people. It stresses the need for everyone engaged in planning, and providing or organising services to consider the needs of elderly people.

The Government recognises that the primary sources of support and care are informal and voluntary, and sees the role of public authorities as being primarily to sustain and develop such

[1] *Growing Older*. Cmnd 8173. HMSO, £4·20. ISBN 0 10 181730 4.

support and care. It concludes that only an informed effort by the whole community will ensure that the challenges and opportunities presented by the growing numbers of older people are adequately met.

Background

In the last 20 years the number of men and women aged 65 and over has risen by a third, and now represents about 15 per cent of the population. Retirement and supplementary pensions cost over £11,000 million a year, more than 17 per cent of public expenditure in the United Kingdom, and other care and support accounts for more than a third of total public expenditure on social programmes. Public authorities, the paper notes, will not be able to provide for the complete range and volume of need of elderly people; the responsibility is one for the whole community.

Income

For most elderly people the state retirement pension is still the main source of income, although many also receive supplementary benefit and other financial help. The Government intends to ensure price protection for pensions over the years as a minimum. The new state pension scheme which came into operation in 1978 provides for payment of earnings-related additional pensions to supplement the basic retirement pension, and when the scheme is fully mature – in 1998 – far fewer will need to have recourse to supplementary benefits. A number of tax provisions recognise the problems of elderly people and most have a higher income tax allowance than usual.

Entering Retirement

There is a great deal of support for more individual freedom and flexibility in the age of retirement, and the Government is convinced that an earnings rule (under which retirement pensions may be reduced) discourages some people from working in retirement. It is firmly committed to phasing out this rule when resources allow. The paper also reports that many see no logic to the five-year discrepancy in the pension ages of men and women (65 and 60, respectively), and that it has been suggested that the Government could work towards a common age of 63. Constraints on spending at present preclude early changes, but the Government intends to keep such an arrangement in view as a long-term objective.

Retirement

Each year about half a million people retire, the majority physically and mentally vigorous and capable of making an active contribution to society. Only about 6 per cent of people approaching retirement, however, receive any formal preparation, and only about one-fifth of elderly people belong to a voluntary organisation; the Government commends both activities to elderly people. It also points out that some form of interest or activity is vital to mental and physical well-being in retirement and recommends, among other things, participation in adult education, both as students and voluntary tutors.

Making Life Easier

An independent life for elderly people depends to a great extent on ease of access to essential facilities and the availability of transport. The Government suggests that by means of local development plans, local authorities can shape an environment which takes better account of elderly people.

Where to Live

Most elderly people want to maintain a home of their own for as long as possible. The Government recognises this and points to the range of financial help available to enable them to do so, such as rent and rate rebates, supplementary benefit arrangements, and local authority grants towards the cost of adaptations, improvements and repairs. Other forms of finance for improvements include maturity loans from local authorities and annuity schemes purchased from insurance schemes. The paper describes the variety of accommodation available to elderly people and notes that the Government expects the main priority in public sector housing to be meeting the requirements of those with special needs. Mention is made of the role of housing associations and the expansion of sheltered housing. Sheltered housing is often provided by local authorities, and voluntary and religious organisations. Wardens are usually resident, but in an increasing number of schemes they are peripatetic. Some schemes provide full-time wardens, which enable tenants with higher levels of dependency to be accommodated.

Support and Care

With increasing age, many people find some of their faculties declining or certain disabilities developing and, at the same time, other problems may occur such as feelings of insecurity, vulnerability and loneliness. Understanding such problems is important to both elderly people and their relations, and the dissemination of general information could help to alleviate many of them, and is encouraged. The Government sees the family as the principal source of support and care, with the primary role of public services being to help people care for themselves and their families by providing a network of support. Special difficulties may occur in coping with bereavement. Voluntary bodies and religious organisations can make an invaluable contribution to helping the bereaved and may be able to offer practical assistance. Limited help with funeral expenses is available in the form of a death grant and the Government is reviewing the future of such aid.

The paper states that most people prefer to die in familiar surroundings, and they should be able to exercise this choice wherever possible. It also acknowledges the achievements of the hospice movement in meeting the needs of dying people and their relatives. There is, the paper reports, a small body of opinion in favour of legalised euthanasia. Many believe, however, that it could expose very vulnerable people to undesirable pressures; the Government considers euthanasia unacceptable, and is firmly opposed to it.

Community Care Services

The social services available include social work support, 'meals on wheels', home helps, and various aids to daily living. About 131,000 elderly people are cared for in local authority residential homes or supported by local authorities in homes run by private or voluntary organisations, and 70,000 are in residential homes provided by private or voluntary organisations. The Government is concerned that this contribution should continue and expand.

A high proportion of the community health services is devoted to the care of elderly people, although only a small minority makes regular use of the full range of services. These are provided by family doctors, dentists, opticians, pharmacists and chiropodists. In recent years the use of physiotherapy, speech therapy and occupational therapy has increased.

Care in Hospitals and Nursing Homes

At any one time, elderly people occupy nearly half the National Health Service beds in hospitals, and, as the number increases, the demand on hospital services will increase. Every effort must be made to plan efficiently for the special needs of elderly people. Within available resources, faster progress needs to be made in the development of units for acute geriatric medicine alongside general acute departments. Adequate facilities must also be provided for active rehabilitation for those elderly patients who require further hospital care.

Geriatric medicine has been one of the most rapidly growing medical specialities in recent years. To assist expansion, the Government is funding bursaries in England and Wales to enable senior registrars in general medicine or related sub-specialities to spend up to one year gaining experience in geriatric medicine. A number of additional posts at senior registrar level have also been authorised, specifically to improve the opportunities available for training doctors in the psychiatry of old age. To help all hospital staff to increase their understanding and awareness of the needs of elderly patients, a package of guidance and learning materials has been developed jointly by the Department of Health and Social Security and the National Health Service.

There is strong support for introducing the nursing-home type of provision as an alternative to hospital accommodation for long-term patients, and a number of experiments are to take place.

Looking Ahead

Advances in medical science, drug therapy, biomedical engineering and orthopaedic surgery have made it possible for people to retain or recover physical functions and live longer. With greater numbers of elderly people in society, meeting their needs will demand the closest partnership between all concerned. Public authorities need to support and encourage all those involved in providing care for elderly people, and to develop local networks of provision. The Government would also like to see all the professions concerned with elderly people receiving more training in understanding their needs.

Hospital Treatment for Overseas Visitors

Charges for hospital treatment for overseas visitors are to be the subject of government regulations towards the end of the year. Consultations with the health professions and other interested organisations will be held to finalise the details of the scheme.

The Government's proposals were given to the House of Commons on 12 March by the Secretary of State for Social Services, Mr Patrick Jenkin (*Hansard*, Vol 1,000, No 66, cols 1013-14).

Present Position

Subject to a number of exceptions, an overseas visitor who comes with the intention of seeking treatment for an existing condition has to be regarded as a private patient and is charged accordingly. Someone who falls ill while visiting this country is treated free of charge. This general position is complicated by the existence of a number of reciprocal agreements with other countries and of the reciprocal arrangements within the European Community. The Government has identified two main problems with this practice. First, at a time when the National Health Service is under pressure, it is not reasonable that people coming from overseas should be entitled to use these services free of charge. No other country in the world offers such a free comprehensive service to visitors. Secondly, the existence of that entitlement leads to fairly widespread abuse by overseas visitors who suffer from an existing complaint, and then claim free treatment on the grounds that they have fallen ill while in the country. It is, at present, extremely difficult to disprove such claims.

Proposals

The proposed charges for hospital treatment will apply to those who are not ordinarily resident in the United Kingdom, subject to a number of exceptions. It is proposed that free out-patient treatment at accident and emergency or casualty departments in hospitals should be continued. Visitors will remain entitled to treatment of immediate necessity where there are reciprocal health agreements, or under the European Community scheme. An exception is proposed for visiting spouses and dependent children of people who are settled in the United Kingdom; they will be entitled to immediately necessary treatment by the National Health Service free of charge. Further, charges will not be made to people who have come to settle, to certain migrant workers, or to those who have stayed in the United Kingdom for three years.

The School Curriculum

Guidance on what ought to be taught in schools in England and Wales has been published by the Department of Education and

Science and the Welsh Office in a paper which sets out broad principles for the school curriculum for the 5-16 age range.[1]

Guiding Principles

The paper, which follows several years of public discussion on the curriculum and the publication of proposals for consultation in *A Framework for the School Curriculum* (see p 40, 1980), recommends that schools should seek to ensure that pupils feel that schoolwork, particularly during the last years of compulsory education, has relevance and meaning for their lives. Schools should also raise pupils' expectations of achievement. The curriculum should be as broad as is practicable and, while the detail of what is taught is a matter for the schools themselves to determine, each local education authority should have a clear policy for the curriculum. The paper says that the curriculum should be related to educational aims which are accepted within and outside the education service. It lists these as being to help pupils to develop lively, inquiring minds, the ability to question and argue rationally and to apply themselves to tasks, and physical skills; to help pupils to acquire knowledge and skills relevant to adult life and employment in a fast-changing world; to help pupils to use language and numbers effectively; to instil respect for religious and moral values, and tolerance of other races, religions and ways of life; to help pupils to understand the world in which they live, and the inter-dependence of individuals, groups and nations; and to help pupils to appreciate human achievements and aspirations.

Primary Schools

It is essential that early skills in reading, writing and calculating should be learned in primary schools. The schools must, however, provide a wide range of experience, and science, history, geography, music, art and craft, should also be included in the curriculum. The paper concludes that primary schools should introduce or maintain the teaching of a foreign language only where it is clear that pupils' early work will be developed over the secondary stage.

Secondary Schools

All pupils' programmes should include a substantial amount of English, mathematics and science, and those taking a modern language should devote sufficient time to it to make the study worthwhile. Special importance is attached to craft, design and technology as part of the preparation for living and working in modern industrial society. There are three further important ways in which pupils can be prepared for adult and working life: the curriculum needs to be related to what happens outside schools; pupils need better and more systematic careers education and guidance; and links between the education service and industry should be further developed.

The paper also stresses the need for schools to develop pupils' personal qualities: the curriculum should include moral education, with the aim of promoting integrity, considerate behaviour and pupils' understanding of the relationship between action and beliefs, as well as health education (including sex education) and preparation for parenthood.

[Public sector school education in England and Wales is a national system locally administered, in which control of the secular curriculum rests with local education authorities or school managers or governors; in practice, responsibility is largely devolved upon head teachers and their staff.]

[1] *The School Curriculum*. HMSO, £2. ISBN 0 10 270383 6.

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